Essays on global business networks, governance, and institutions

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Sarah Castaldi
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"I am looking forward to the future, and feeling grateful for the past" – Mike Rowe, 2014

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Chapter 1: Introduction of Dissertation

"When the items exchanged between buyers and sellers possess qualities that are not easily measured, and the relations are so long-term and recurrent that it is difficult to speak of the parties as separate entities, can we still regard this as a market exchange? When the entangling of obligation and reputation reaches a point that the actions of the parties are interdependent, but there is no common ownership or legal framework, do we not need a new conceptual tool kit to describe and analyze this relationship? Surely this patterned exchange looks more like a marriage than a one-night stand, but there is no marriage license, no common household, no pooling of assets." (Powell, 1990: 301)

1.1. Business Networks in the Context of International Business

1.1.1. The Rise of Global Business Networks

The formation of collaborative inter-organizational arrangements has received widespread attention by academic researchers in many different fields such as business, economic geography, sociology, and policy studies (Sydow, Schuessler, & Mueller-Seitz, 2016). A plethora of organizational configurations exists that falls into the space between the market and hierarchy extremes. In the broadest sense, cooperation in inter-organizational arrangements can be understood as any relations of organizations functioning on the market, whether unaware, casual, or inconsistent to a close and tight tie (Rzepka, 2017). Inter-organizational relationships materialize in strategic alliances, subcontracting, joint ventures, franchising and licensing arrangements, co-operative and non-equity agreements, diversified business group (BG) networks, and collaborative R&D, marketing and technology financing (Cropper, Ebers, Huxman, & Smith Ring, 2008).

So far, the literature mainly focuses on three interrelated issues in inter-organizational arrangements: (1) the motivations and (collaborative) challenges of network formation (e.g., Gulati, Nohria, & Zaheer, 2000; Nooteboom, 2004), (2) the choice of governance structure (e.g., Gereffi Humphrey, & Sturgeon, 2005, 2005; Uzzi, 1997), and (3) the effectiveness and performance of inter-organizational arrangements with respect to innovation (e.g., Chang, Chung, & Mahmood, 2006; Moran, 2005), quality management (e.g., Christmann & Taylor, 2006; Ponte & Gibbon, 2005), sustainability (e.g., Jiang, 2009; Marano & Kostova, 2015), or financial outcomes (e.g., Bhaumik, Kumar, Estrin, & Mickiewicz, 2016; Keister, 2000). Most of these studies build upon a relationship- and network-based framework, while failing to explicitly consider the international dimensions—both political and social—of modern business networks, and how such local institutional dimensions affect member firms' behavior and performance (Owen-Smith & Powell, 2008). This is surprising, given that modern business networks are characterized by increased fragmentation and geographical dispersion (Gereffi et al., 2005), which aggravates the coordination challenge in inter-organizational arrangement as *''the scope of the activity of management control is enlarged and it no longer confines within the legal boundaries of the organization''* (Otley, 1994: 293). We show in this PhD thesis that network formation and governance is context-specific, and only performance-enhancing for participating firms that are located in certain institutional environments. We choose the term *'global business networks'*[1] to emphasize the global nature of modern business networks. We consider both New Institutional Economics (NIE) arguments, focusing on how *formal* (political) institutions influence the transaction-cost minimizing choice of governance mode, and rationales from New Organizational Institutionalism (NOI), or institutional theory, explaining how *informal* institutional norms and values impact governance choices that cannot be explained by efficiency-seeking motives alone.

1.1.2. Global Business Networks as a Hybrid Mode of Governance

Governance is commonly defined as *"the means to infuse order, thereby to mitigate conflict and realize mutual gain"* (Williamson, 2010: 456), or the *"play of the game"* between parties of transactions (Williamson, 2000: 597). Governance structures appear as an element that can facilitate or hinder the coordination of the firm, mainly as the result of rational choice and opportunism to minimize transaction costs (Williamson, 1985). Hybrid structures, in particular, are *"located between market and hierarchy with respect to incentives, adaptability, and bureaucratic costs. As compared with the market, the hybrid sacrifices incentives in favour of superior coordination among the parts. As*

[1] This topic has been widely investigated, thus providing a wealth of naming and interpretations. For example, Williamson (1985) refers to it as hybrid organizations, Eccles (1981) talks about quasi-firms, Piore and Sabel (1984) describe flexible specializations, Powell (1990) focus on network organizations, Uzzi (1997) argues for inter-firm networks, Jones, Hesterley and Borgatti (1997) talk of network governance, and Powell and Gordal (2005) identify a network of innovators. We follow Williamson (1985) and use the terms *'business networks'* and *'hybrids'* interchangeably when referring to inter-organizational (business) arrangements.

compared with the hierarchy, the hybrid sacrifices cooperativeness in favour of greater incentive intensity" (Williamson, 1991: 283). In other words, hybrids develop when transactions among partners are specific enough to generate substantive contractual hazards without justifying vertical integration as prevalent in hierarchies, and when *"uncertainties are consequential enough to require tighter coordination than what markets can provide"* (Menard, 1995: 31). In order to safeguard transactions, hybrid forms rely on three pillars, namely: pooling of resources, coordination through relational contracts, and the combination of competition and cooperation (Menard, 2005). Table 1.1 illustrates the distinctive characteristics of hybrids as compared to markets and hierarchies.

Table 1.1. Global Business Networks as a Hybrid Governance Form between Markets and Hierarchies

	Market	**Hierarchy**	**Hybrids (= global business networks)**
Relationship	Short-term interaction between independent actors	Long-standing relationship between integrated actors	Intermediate and long-term between partly integrated actors
Type of contract	Spot market	Incomplete/relational	Most often incomplete contracts
Coordination	Price	Authority/ - orders, administrative rules and processes	Price and fiat
Legal Paradigm	Classic contract law of markets through legislation prescribing that the court is the forum of ultimate appeal	Private ordering - the internal organization becomes its own court of appeal and is characterized by forbearance	Both contract law and private ordering
Transaction Costs	Market transaction costs	Bureaucracy costs	Both markets and bureaucracy costs

Table 1.1, adjusted from Bech and Møller Pedersen (2005), shows that hybrids are not markets because the relationships among organizations are intermediate and long-term rather than short-term and sporadic (Menard, 2005). In markets, production is carried out by a number of independent organizations each producing ubiquitous products that are traded at arm's lengths, often on the *'spot'* market, to the broker or firm carrying out subsequent steps or activities (Coase, 1937; Williamson, 1991). The exchange of products under market governance is discrete and well-specified within simple market

contracts, and mainly governed by price. At the same time, hybrids are not hierarchies because the organizations affiliated with the network are legally separate entities that can enter into contracts independently of one another. Hierarchical governance refers to the coordination of transactions within organizations which is supported by employment contracts and is fundamental to the principle of forbearance (Coase, 1937). Hierarchies are their *"own court of ultimate appeal"* (Williamson 1991: 274), and the actors involved in a dispute resolve their differences internally. Relationships in hierarchies may be long-term, but a clearly recognized and legitimate authority exists that resolves conflicts that may arise among parties (Williamson, 1991). Hence, we can infer from Table 1.1 that hybrids are mixed species, combining elements of both markets and hierarchies.

1.1.3. Global Business Network Heterogeneity: the Role of Social Capital

Since Williamson's (1985) and Powell's (1990) publications on network relationships, the discussion around networks as governance modes has, until recently, focused mainly on the difference between networks/markets and hierarchies and the conditions under which networks function and exist. The reference point was, therefore, two classic modes of governance. As a result, networks were often treated as a homogenous category somewhere between market and hierarchy. However, a number of scholars have attempted to define the distinctive elements of networks, empirically showing that networks come in different forms, and display varied governance characteristics (e.g., Grandori, 2013; Hennart, 2013; Osborn & Hagedoorn, 1997; Raab & Kenis, 2009). Such varieties are most commonly attributed to the integration of sociological variables in the transaction cost framework (Granovetter, 1985; Uzzi, 1996, 1997). Contrary to the transaction cost economics (TCE) assumption that firms cannot discern the trustworthiness of other actors, and thus must act as if individuals cannot be trusted, sociologists argue that interpersonal relations within networks may change a partner's attitude from selfishness to trust which reduces the risk of opportunistic behavior during the cooperation (Uzzi & Lancaster, 2003). Trust, cooperation, and reciprocity between member firms, so they argue, stimulate resources and knowledge acquisition as well as legitimacy which subsequently improve performance (Podolny & Page, 1998). The prevalence of both contractual and relational aspects in network governance allows for a more nuanced view of business networks. For the purpose of this PhD thesis, we will focus on two distinct business network forms, namely: diversified business group (BG) networks and vertical supply chains.

BGs are hierarchy-like forms of network organization between legally independent firms with stable relationships operating in multiple diversified activities and under common ownership and control (Cuervo-Cazurra, 2006). While BGs provide incentives to self-enforce promises of cooperation among production units, e.g., given the control exerted by a common parent, social solidarity and structure exists among member firms to organize activities within network-like environments (Granovetter, 1995). From an institutional perspective, BGs emerge as a prominent organizational form in emerging countries where markets fail to provide an institutional infrastructure for commercial activities (Khanna & Palepu, 1997; Khanna & Yafeh, 2007). As a consequence of institutional weaknesses, BGs often engage in unrelated diversification to provide its member firms with an internal market for capital, knowledge and information, intermediate products, managerial talent, and other important strategic resources (Belenzon, Berkovitz, & Rios, 2013; Chang & Hong, 2000; Estrin, Pouliakova, & Shapiro, 2009; Tan & Meyer, 2010). We refer to these BG advantages as market-based advantages which are driven by transaction cost minimization motives (Cuervo-Cazurra & Genc, 2008, 2011). However, BGs also provide member firms with non-market advantages, i.e., external linkages and connections (e.g., political, social or cultural relations) that help member firms cope better with idiosyncratic market conditions which cannot be explained by TCE rationales (e.g., Filatotchev, Strange, Piesse, & Lien, 2007; Guillén & García-Canal, 2009; Lu, Liu, Wright, & Filatotchev, 2014; Tan & Meyer, 2010). We will discuss BG networks and advantages in *Chapter 2* of this PhD thesis.

Vertical supply chain networks, reflect the flow of services and products from primary producers (i.e., suppliers) up to end consumers, with MNEs[2] often acting as *'lead firms'* that monitor and control supply chain activities and performance (Humphrey & Schmitz, 2001)[3]. We classify vertical supply chains as market-like network arrangements, since purchasing decisions no longer depend only on price mechanisms (as evident in pure, anonymous spot markets), but predominately rely on other order-qualifying criteria such as product quality or sustainability (e.g., Jamali & Karam, 2016), which require relationship building among supply chain partners. Thus, as lead firms, it

[2] We use the terms MNEs, customers, and buyers interchangeably throughout this thesis.
[3] In this thesis, we only focus on the relationship between buyer and first-tier supplier. We thus ignore lower tier suppliers further down the supply chain.

is the buyer's responsibility to disseminate knowledge and best practices within the supply chains to ensure that suppliers are compliant with external requests (Jiang, 2009; Rungsithong, Meyer, & Roath, 2017). Such relationship building and governance goes beyond the TCE logic of transaction cost-minimization. We will discuss supply chain networks and various governance modes in *Chapter 3* and *Chapter 4* of this PhD thesis. More specifically, in *Chapter 3*, we link network governance to corporate social responsibility (CSR)[4] practices, and distinguish between contractual and relational governance mechanisms. Relational governance stimulates close collaboration and trust between buyer and suppliers, while contractual governance only relies on monitoring and auditing mechanisms. In *Chapter 4*, we specifically refer to social sustainability governance which is the active support of the lead firm to build capabilities at the supplier firms (e.g., by providing resources and trainings). Social sustainability governance is functional (e.g., MNEs support suppliers to reduce the risk of non-compliance), and does not necessarily include trust or other relational norms. For a general comparison between diversified BG networks and supplier networks, please refer to Table 1.2.

Table 1.2. Distinction between Diversified Business Group and Supplier Networks

	Diversified Business Group Networks	**Supplier Networks**
Corporate Status	Legally independent firms	Legally independent firms
Inter-Firm Relationships	Stable and long-term relationships	Stable and long-term relationships
Ownership	Common ownership (i.e., family, state, dispersed shareholders)	No common ownership
Corporate Strategy	Unrelated diversification	Related diversification (i.e., backwards vertical integration)

[4] Throughout this PhD thesis, we use CSR and social sustainability interchangeably.

1.2. Global Business Networks and Institutions

1.2.1. New Institutional Economics (NIE): Formal Institutional Constraints for Global Business Networks

TCE has been developed assuming stable, well-developed, and efficient market mechanisms which reduce the level of uncertainty and transaction costs, as well as facilitate the interaction between social actors (Meyer, 2001; Williamson, 1975). Hence, it is challenging to apply TCE in institutional settings characterized by fragmented and incomplete institutions (Meyer & Peng, 2005). In those environments, ineffective courts and increased opportunistic behavior may lead to additional costs which have to be factored in the transaction cost calculus (Williamson, 2008). To address those limitations, TCE has been extended by an institutional perspective, the NIE, which focuses on the underlying political and social norms of economic activities (North, 1990; Williamson, 1991, 2000). Conceived as *"humanly devised constraints that structure political, economic and social interactions"*, NIE views institutions as consistent of both formal rules like constitutions, laws and property rights and also informal elements such as *"sanctions, taboos, customs, traditions and codes of conduct*" (North, 1991: 97). Although NIE acknowledges the existence of both formal and informal institutions, most scholars focus mainly on formal rules and regulations, i.e., property rights and contract enforcement (Joskow, 2008; Williamson 2000)

In 1991, Williamson (1991) introduced the so-called shift parameter framework, an extension of the TCE model investigating how the optimal choice of governance mode changes in response to dynamics in the institutional setting. As such, changes in exogenous parameters (i.e., formal institutions) will shift the effectiveness of alternative governance structures[5]. Shift parameters shall be used to indicate institutional differences between alternative market settings (such as developed vs. emerging countries) and will influence the predictions about transaction costs and governance choice in each environment. For example, the emergence of inter-organizational network such as BGs in many emerging markets has often been explained with weak institutions for market exchange (e.g., Khanna & Palepu, 1997; Khanna, 2000; Peng & Luo, 2000). Hence, the influences of both transaction cost characteristics and the formal

[5] Despite the recognition that informal institutions play a crucial role in defining societal rules, Williamson (2000: 596) claims that informal institutions are commonly *"taken as given by most institutional economists".*

institutional environment on governance choice should be analyzed jointly (Williamson, 1991).

Although Williamson (1991, 2000) acknowledges that formal institutions can generate uncertainties which may influence the choice of governance, empirical testing is rather scarce (for exceptions see Henisz, 2000; Henisz & Williamson, 1999: Oxley, 1999). Since there is very little research on how formal institutions interact with the internal characteristics of alternative organizational arrangements, our understanding of the underlying mechanisms through which institutions shape and alter organizational arrangements is still quite poor. Empirical testing of Williamson's (1991) shift parameter framework has focused predominately on the shift from discrete governance forms (e.g., legal contractual or equity arrangements) toward more hierarchical arrangements, given an increase of political hazards in the market (e.g., Oxley, 1999). This thesis contributes to these studies by empirically testing how effective various forms of network governance are for participating firms that are located in certain institutional settings. More specifically, in *Chapter 2* and *Chapter 3*, we distinguish between low (or less favorable) versus high (or more favorable) quality of local institutions.

1.2.2. New Organizational Institutionalism (NOI): the Importance of Informal Institutional Structures

A second stream of research embracing institutions and economic action is NOI, more commonly referred to as institutional theory (DiMaggio & Powell, 1983, Kostova, 1997, 1999; Meyer & Rowan, 1977; Oliver, 1991; Powell & DiMaggio, 1991; Zukin & DiMaggio, 1990). Institutional theory focuses on embeddedness within settings that convey unique institutional norms that enable and constrain organizational decision-making and behavior (e.g., Dacin, 1997; Powell & DiMaggio, 1991). We define institutional embeddedness as "*the nesting of economic and strategic activity within an institutional environment. The institutional environment of firms and markets refers to the social and normative context surrounding them, in particular, those external influences that define socially acceptable economic behavior*" (Oliver, 1996: 164).

NOI, as opposed to NIE, posits that social behavior is not only restricted through formal institutions, but also guided and spurred by cultural-cognitive systems and normative pressures (i.e., informal institutions[6]) (DiMaggio & Powell, 1983; Scott, 1995; 2008). Institutional norms and cognitions commonly originate from public opinion, professionals, industrial certification and accreditation, etc. (Scott, 1995). How well a firm conforms to formal and informal institutions, also called legitimation, determines its performance (Handelman & Arnold, 1999). Suchman (1995: 574) defines legitimation as *"a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions"*. To become institutionalized and legitimate, the organizations have to conform to three forces in the institutional environment: coercive, normative, and mimetic (Scott, 2008). Coercive pressures stem from political influence, often conveyed through state regulations, laws, and accreditation processes; normative pressures are related to professional values; and mimetic pressures associate with mimicking or copying behaviors as a result of firm responses to uncertainty. These isomorphic pressures explain convergence in organizational practices and structures. Following Peng, Wang, and Jiang (2008), in *Chapter 3*, we will broadly distinguish between formal and informal institutional pressures, subsuming mimetic and cognitive institutional pressures to informal institutional pressures. We respond to calls for studying more domain-specific institutional environments rather than general country level factors (Busenitz, Gomez, & Spencer, 2000; Kostova, 1999; Meyer, 2012), thus assessing the *'favorability'* of formal and informal institutions. By *'favorable'* institutions we mean institutions which both constrain CSR misconduct and enable CSR activities (Marano & Kostova, 2015; Saka-Helmhout & Geppert, 2011).

Conforming to institutional forces does, however, not necessarily imply that the most efficient option is chosen, because legitimacy rationales and economic efficiency motives may potentially be contradictory (Kennedy & Fiss, 2009; Tolbert & Zucker, 1983). For example, while conforming to stakeholders' CSR requests may increase a supplier's legitimacy (and possibly also its CSR performance), it does not necessarily mean that implementing a CSR agenda will (immediately) increase a supplier's financial performance, too. Hence, as compared to NIE, which posits that organizations are only and entirely motivated by economic efficiency-enhancing reasons, institutional theory emphasize the importance of other non-economic goals, too (i.e., legitimacy).

[6] As the boundaries between norms and cognitions are not always clear (Gaur & Lu, 2007; Scott, 2001), we will use North's (1990) classification of informal institutions, subsuming Scott's (1995) normative and cognitive pillars.

Organizations can be exposed to multiple institutional pressures, especially when affiliated with business networks that span multiple countries with heterogeneous institutional environments (Marano & Kostova, 2015; Muller, 2006). Institutional theorists argue that isomorphic pressures can be channeled and filtered indirectly through networks and affect member firms' strategy and performance (e.g., Kostova & Roth, 2002; Owen-Smith & Powell, 2008). As such, networks serve as conduits of institutional effects because they diffuse appropriate practices and ideas (e.g., Davis & Greve, 1997; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Owen-Smith & Powell, 2008). Consequently, organizations affiliated to networks are not only influenced by institutional forces stemming from their local country environment but are also subject to isomorphic pressures internal to their networks (Kostova & Roth, 2002). Although networks and institutions are intertwined and operate in interaction (Carruthers & Uzzi, 2000), empirical testing to explain the underlying mechanisms of possible interaction effects remains largely absent (Dacin, Beal, & Ventresca, 1999; Owen-Smith & Powell, 2008). In *Chapter 3*, we aim to extend this stream of literature to understand how relational quality of network governance—contractual vs. relational—affects the diffusion of CSR norms in global supply chains. Since we focus on CSR practices in particular, we highlight the importance of informal institutions, because suppliers may be more receptive to follow a logic of appropriateness and moral obligation rather than instrumentality and legal sanctions.

1.3. Organizational Response Strategies: Organizations as Active Agents

Over the past three decades, NOI has repeatedly been criticized for giving primacy to structure, while rejecting the role of active agency (e.g., Dacin, Goodstein, & Scott 2002; DiMaggio, 1988; Granovetter, 1985; Oliver, 1991; Salancik, 1995). Oliver (1991) was the first to discuss the role of agency within institutional theory, arguing that organizations have room for strategic maneuvers that go beyond existing institutions. She argues that *"institutional theory can accommodate interest-seeking, active organizational behavior when organizations' responses to institutional pressures and expectations are not assumed to be invariably passive and conforming across all institutional conditions"* (Oliver, 1991: 146). As such, Oliver (1991) suggests five types of strategic responses to institutions, ranging from conformity or acquiescence, compromise, avoidance, deviance to manipulation. At the most passive end of the continuum, firms consciously comply with institutional pressures by implementing new practices and adapting structure to match institutional expectations (DiMaggio & Powell, 1983). At the other end of the continuum, firms reject practice implementation and attempt to take control over external pressures (Kraatz & Block, 2008). Between these two sets of responses, increasing attention has been paid to firms that decouple, or symbolically implement, policies from actual practices both to maintain legitimacy and to preserve their efficiency (Boxenbaum & Jonsson, 2017; Jamali, 2010; Meyer & Rowan, 1977; Scott, 2008). Overall, Oliver (1991) argues that the choice of strategic response to institutional pressures depends on both resource availability and motivation of the firm.

Decoupling, or symbolic implementation, is defined as being carried out by organizations that *"abide only superficially by institutional pressure and adopt new structures without necessarily implementing the related practices"* (Boxenbaum & Jonsson, 2017: 64). In order to be considered legitimate, organizations can decouple their formal policies from actual practices when institutional pressures or expectations conflict with their internal efficiency rationales (Meyer & Rowan, 1977). Decoupling has commonly been explained by examining either the organization's external environment or the internal organization. Many studies have addressed factors that are exogenous to the firm, such as divergent stakeholder expectations (Meyer & Rowan, 1977), or the difficulty for stakeholders to monitor internal practices (Christmann & Taylor, 2006; Egels-Zanden, 2007; Jamali, 2010; Short & Toffel, 2010). Other investigations have stressed the interests and motivation of managers inside the firm that can diverge from external stakeholder requests (e.g., Kennedy & Fiss, 2009; Westphal & Zajac, 1994, 2001). However, since decoupling is a mismatch between external pressures and a firm's internal forces, any explanation that focuses on external or internal factors alone will be incomplete (Crilly, Zollo, & Hansen, 2012). In this PhD thesis, we aim to expand this stream of research by investigating how the interplay between a supplier's external stakeholder pressures and its internal factors influence its strategic response to CSR pressures. As such, in *Chapter 4*, we aim to understand how the interplay between a buyer's CSR request and the supplier's CSR motivation affect a supplier's CSR implementation strategy. Moreover, we propose alternative response strategies to decoupling behaviors, which are contingent on the suppliers' resource availability and capabilities. As such, we argue that suppliers may selectively implement CSR practices if they are inherently motivated to implement CSR practices, but do not receive resources and support from buying firms.

1.4. Contributions and Theoretical Implications

This PhD thesis offers several contributions to the wider debate on governance and institutions in international business. First, we add to NIE and institutional theory by empirically highlighting boundary conditions of network governance for firm-level outcomes. Our findings concur with NIE predictions that the effectiveness of governance modes depends on the formal institutional quality that characterize the environment in which the member firms are located (Williamson, 1991). Adding to the scarce empirical testing on the impact of formal institutions on the choice of governance modes (Henisz, 2000; Henisz & Williamson, 2002; Oxley, 1999), we empirically show that forms of network governance can offset market failure and the lack of institutional infrastructure by providing firms with (financial) resources, knowledge, and capacities which are not readily available in institutional settings characterized by weak formal institutions. More specifically, in *Chapter 2*, our findings show that market advantages from BG membership can be translated to foreign subsidiaries located in formally weak institutional countries to reduce transaction costs in the market. Moreover, in *Chapter 3*, we illustrate that relational governance can enhance the level of social compliance[7] of suppliers located in countries characterized by weak CSR laws and regulations. Thus, in both chapters it becomes clear that networks can substitute formally weak institutions by providing member firms with means to reduce transaction costs.

However, what is also evident from *Chapter 3* is that relational governance has no effect on social compliance in informally unfavorable countries, while it positively influences social compliance in informally favorable countries. Thus, when considering both formal and informal institutions, our results suggest that relational governance can provide resources and capacity for social compliance when these are lacking in the institutional environments, but relational governance fails to transmit a logic of appropriateness on suppliers firms. In other words, relational governance cannot *'push'* institutional norms if suppliers are neither motivated to comply with CSR requests nor willingly accept the buyer's support. At the same time, suppliers located in environments characterized by favorable informal institutions are willing and capable of

[7] Throughout this thesis, we use social compliance and social compliance performance interchangeably.

learning from the buyers which essentially increases their social compliance performance. These findings also add to the debate on networks in institutional theory by demonstrating how network governance affects the transfer of institutional norms within supplier networks. Although institutional theorists posit that networks act as conduits for the diffusion of appropriate practices such as those related to CSR (e.g., Owen-Smith & Powell, 2008), the underlying mechanisms of such practice transfer are still unclear. Thus, we show that networks can channel and instill institutional norms when suppliers are located in informally favorable environments. This is particularly so in the realm of CSR practices since organizations often follow a logic of appropriateness and moral obligations rather than instrumentality and legal sanctions.

Second, we also advance institutional theory, and more specifically the decoupling and organizational response strategy literature. As active agents, organizations can decouple policies from actual practices if firm-internal routines and organizational goals do not match external stakeholder requests (Oliver, 1991). While we concur with institutional theory predictions that the misalignment between external environment and internal forces results in decoupling behavior, our results suggests that the alignment between the two does not necessarily lead to substantive implementation. If firms do not have the necessary resources and capabilities to implement the requested practices, they can at best comply selectively with global standards. Although these findings seem to be in contrast with institutional theory, they can be explained by the complex and heterogeneous nature of modern standards. Previous literature has typically considered a firm's strategic responses to relatively straight forward standards, e.g., stock repurchase plans (Westphal & Zajac, 1994), or TQM standards (Christmann & Taylor, 2006; King, Lenox, & Terlaak, 2005), which commonly consider a low quality of practice implementation as indicative of symbolic implementation. We, however, introduce organizational responses to more complex standards, e.g., CSR standards, which encompass a variety of heterogonous practices (ranging, for example, from more technical—commonly easier to implement—practices like CSR documentation or reporting to freedom of association). This allows firms to *'cherry pick'* the implementation of some practices, while decoupling or rejecting others (Heese, Krishnan, & Moers, 2016; Jamali, Lund-Thomsen, & Khara, 2015; Pache & Santos, 2013; Wickert, Vaccaro, & Cornelissen, 2015).

1.5. Managerial Implications

The research findings of this PhD thesis provide a series of managerial implications. First, the findings could help managers to understand when to tap into existing network resources and when to look elsewhere in the market to develop firm resources and capabilities. With respect to *Chapter 2*, managers of emerging market multinationals should develop new strategies for their foreign subsidiaries as the institutional context evolves, since the benefits of being affiliated with the group may diminish. For example, foreign subsidiaries affiliated to BGs could partner up with multinationals from more advanced countries to develop and expand their competitive position in these markets (Lu & Ma, 2008). In contrast, there is a growing need for managers of advanced country multinationals, too, to assess emerging market multinationals as potential competitors in the international market (Luo & Tung, 2007). Since our results imply that emerging market multinationals affiliated to BGs are likely to pose a competitive threat for them, especially if their foreign subsidiaries are located in institutionally weak countries, it could also be beneficial for multinationals in more advanced countries to partner up with BG affiliates.

Second, with respect to *Chapter 3*, our results suggest that managers of Western MNEs should consider global suppliers' underlying institutions in their purchasing decisions and governance modes. When institutions are relatively underdeveloped and *'unfavorable'* to CSR, then buyer-supplier collaboration can increase a supplier's capacities and resources for social compliance, but it cannot enhance a supplier's internal commitment for social sustainability. This may raise questions as to whether or not a supplier's social compliance performance is substantive (Meyer & Rowan, 1977). One way to alter norms, values, and beliefs towards CSR, which could ultimately enhance the commitment and substantive implementation of social sustainability practices, is for MNEs to exert *'institutional entrepreneurship'* (Battilana, Leca, & Boxenbaum, 2009) and engage with local non-governmental stakeholders such as NGOs (Jamali, Yianni, & Abdallah, 2011).

Third, as per *Chapter 4*'s findings, managers of Western MNEs should be aware that global suppliers could potentially engage in strategic CSR implementation which may risk damaging MNE reputation (Van Tulder, Van Wijk, & Kolk, 2009). Thus, it is important for managers to understand the underlying conditions and consequences of such deviations to the originally requested CSR practices. To avoid symbolic CSR implementation, buyers could highlight both ethical and economic advantages of implementing CSR, explaining why suppliers should accept and invest in CSR activities. If suppliers are not inherently motivated to comply with CSR requests, then CSR implementation is most likely not substantive. At the same time, MNEs should also recognize that a supplier's strategic CSR implementation is not always a deliberate choice and may occur as a result of a lack of resources and capabilities for compliance. Thus, it is indispensable for Western MNEs to provide practical support in a supplier's compliance process.

1.6. Limitations and Suggestions for Future Research

This PhD thesis is subject to several limitations that point to opportunities for future research. First, our findings in *Chapter 2* suggest that BG affiliation can be beneficial for foreign subsidiaries, because BGs can reduce transaction costs by acting as substitutes for market failure and weak supporting institutions in emerging countries (Khanna & Palepu, 1997). What is still unclear, however, are the actual mechanisms that allow local emerging market multinationals to transfer practices to other (similarly) institutionally weak countries. Although we conceptually distinguish between market and non-market advantages of BG firms, due to data unavailability we could not directly measure both constructs. For example, how do non-market practices such as inter-firm relations or political ties transfer to other countries? If foreign subsidiaries affiliated to BGs are more profitable because they can delve into *'deeper pockets'* of BGs, then how do they compete against multinationals from more advanced companies? What are the actual mechanisms of non-market advantages that distinguish BGs from multinationals? Future research can specifically develop these measures to capture more nuanced differences between BGs by employing other techniques such as content analysis and survey questionnaire (e.g., Chen & Jaw, 2014; Chittoor & Aulakh, 2015).

Second, for *Chapter 3* and *Chapter 4*, we collected primary survey data from global suppliers located in both developed and emerging countries. We pilot-tested the survey among suppliers located in multiple countries to determine whether the respondents correctly understood and interpreted the survey questions, and subsequently translated all surveys in the local language by native speakers (Hult, Ketchen, Griffith, & Tamer Cavusgil, 2008). Although we carried out ex ante (e.g., complex measurement models, use factor-based items and formative scales, disorder of the questions) and ex post procedures (e.g., various statistical tests) to control for common method variance, we could not obtain sufficient information on dependent and independent variables from different sources, or collect data at different points in time (Podsakoff, Mackenzie, Lee & Podsakoff, 2003). Moreover, since there is no consensus concerning the operationalization of the CSR concept (Dahlsrud, 2008), we relied on practitioner insights to develop a measure for the dependent variables. Based on suggestions from Western MNEs and global suppliers, we constructed the dependent variable—the level of social compliance (*Chapter 3*) and the breath of CSR implementation (*Chapter 4*) —as a summative index of key performance indicators. Although we validated the social performance indicators with academic literature, we could not find a concrete definition which supports our underlying assumption that the items make such a sum relevant. Since the operationalization of the dependent variable is new and explorative in nature, future research may validate our results with subjective measures to assess social performance. For example, future studies could collect data from management and employees to understand the actual work routines and practices on the factory floor.

Third, in contrast to most empirical studies which collect data from large MNEs only (e.g., Hajmohammad & Vachon, 2017; Marano & Kostova, 2015), we used survey methodology to collect data at the supplier level. Although supplier level data helped us to understand whether and why global supplier firms comply with social sustainability practices, future research should collect dyadic data from both MNEs and suppliers. MNEs may have different rationales for outsourcing their production, and transferring social sustainability practices to their global supply chain partners (e.g., Tong, Lai, Zhu, Zhau, Chen, & Cheng, 2018). Although we tried to reduce such variation among MNEs by only selecting factories which supply to MNEs located in Western Europe or North America, we acknowledge that the social sustainability agenda of some MNEs may be different from others, which potentially influences supplier compliance performance.

Fourth, we limit *Chapter 3* and *Chapter 4* to the implementation of CSR practices in global supply chains, although we believe that our findings can be extended to other semi-institutionalized practices (Tolbert & Zucker, 1996). When organizational practices have gained some normative acceptance, whilst not being fully institutionalized yet, we could expect a variety in the implementation response (Abrahamson & Fairchild, 1999). Examples of semi-institutional practices in less developed countries are human resources management, lean manufacturing, or TQM (e.g., Kostova & Roth, 2002).

Fifth, the focus on footwear and apparel suppliers is purposefully chosen (due to recent scandals and sustainability misconduct), and allows us to control for inter-industry differences. However, it also prevents us from testing whether the predictions would hold in other industries. Future research may replicate this study to examine the robustness of the findings across other industries with similar peculiarities; that is, with strong global pressures for CSR, vertical integration in global supply chains and narrow profit margins and low skill manufacturing. Examples might be found in electronics or toys (e.g., Egels-Zanden, 2007; Jiang, 2009). Although we believe that the results could well extend to other similar industries, caution should be exercised when generalizing our findings to all industries.

Sixth, with respect to *Chapter 4* in particular, we recommend future research to further unpack the underlying mechanisms of a supplier's CSR implementation responses. The antecedents for selective and substantive implementers are rather straight forward. However, future research should particularly investigate the difference between deficient and symbolic implementation. While our results suggest that symbolic implementers are slightly more motivated than deficient implementers, we are paused with the nature of such motivation. Are suppliers motivated to signal good faith by implementing a wide breadth of CSR practices to ensure MNE loyalty, while at the same time trying to avoid the actual costs of CSR implementation? Or is it merely a capability problem, which emerging suppliers face, since they do not understand the merits of a high depth of CSR implementation?

1.7. Outline of the PhD Thesis

The structure of this PhD dissertation is as follows: *Chapter 2* introduces the role of BGs as prominent governance form in emerging markets. BGs consist of legally independent firms interlinked by multiple market and relational ties that exhibit widely diversified and unrelated product portfolios (Leff, 1978). According to NIE, BGs emerge as an organizational solution for problems arising from market inefficiencies and an inadequate institutional setting (e.g., Khanna & Palepu, 1997; Kim et al., 2004). BGs are created in emerging economies to reduce the high transaction costs in markets for capital (Belenzon & Berkovitz, 2010; Buchuk, Larrain, Muñoz, & Urzúa, 2014; Jia, Shi, & Wang, 2013), intermediate products (Estrin, Pouliakova, & Shapiro, 2009; Kester, 1992), and labor (Khanna & Palepu, 1997). In addition to such market advantages, member firms also benefit from BGs' non-market advantages, which include political lobbies (Khanna & Rivkin, 2001), social ties (Khanna & Yafeh, 2007; Tan & Meyer, 2010), and ethnic and cultural ties (Filatotchev, Strange, Piesse, & Lien, 2007). Although we know that BG membership is highly effective in an institutionally underdeveloped home market where member firms originate (Chang & Hong, 2000; Guillén, 2002; Hoskisson, Cannella Jr., Tihanyi, & Faraci, 2004; Luo & Chung, 2005; Manikandan & Ramachandran, 2015), it is unclear whether the home-grown advantages of BG affiliation can be transferred abroad to the foreign subsidiary and influence its performance. Also, if BG advantages are transferable across national boundaries, what are the limiting factors?

Given the prominence of BGs in India and the recent surge in outward FDI by Indian firms, India provides a suitable setting for answering our research questions. We used multiple sources to collect data on subsidiary-, firm- and BG-level, covering the sample period 2003 to 2012: first, we used the ORBIS database (Bureau van Dijk) to identify all foreign subsidiaries wholly owned by Indian multinationals. Next, we coupled the subsidiary-level data of ORBIS with the Prowess database, as published by the Centre for Monitoring Indian Economy. Through the Prowess database we collected both the parent firm-specific data as well as the BG-level data. Finally, we used the World Bank to collect country-level data (e.g., formal institutions). The final sample includes 541 foreign subsidiaries of 170 Indian multinationals (of which 106 are BG affiliated) active in 44 host countries. The sample comprises 2696 subsidiary-year observations.

Using fixed-effect regression models, we find a positive relationship between BG affiliation and foreign subsidiary financial performance, which is contingent upon the host market formal institutional qualities and the nature of economic activities of foreign subsidiaries. Our results highlight the boundary conditions for a specific governance form, namely BG membership, to generate benefits for multinational activity. These findings conform to NIE predictions that the effectiveness of governance arrangements depends on the quality of the underlying formal institutions, and contribute to the scarce empirical testing on the interplay between governance modes and formal institutions (e.g., Henisz, 2000; Oxley, 1999). Since NIE has only explored the shift from market/network to more hierarchical arrangements with decreasing institutional quality (e.g., Henisz, 2000; Oxley, 1999), our findings extend previous studies by showing that network arrangements can reduce transaction costs in countries characterized by formal institutional voids, if network relations are based on trust and other relational norms. This relates back to the importance of non-market capabilities in networks, or as Granovetter's (1985) would call it, the relational embeddedness within networks.

Both *Chapter 3* and *Chapter 4* concern CSR practice transfer in vertical global supply chain networks. In response to recent scandals and sustainability misconduct in global supply chains, MNEs, as buying firms, are increasingly called on to be more accountable for the sustainability practices of their global supplier operations (Kim & Davis, 2017). Most commonly, MNEs coerce compliance of global suppliers with third-party sustainability standards and supplier codes of conducts (King, Lenox, & Terlaak, 2005) that are monitored and assessed through audits (Christmann & Taylor, 2006). The sole reliance on audits has been questioned, however, and the Rana Plaza disaster revealed that a lot of the involved suppliers were previously audited positively by their Western customers (Clean Clothes Campaign, 2013). Hence, we aim to investigate the efficacy of alternative governance mechanisms beyond auditing (i.e., relational governance and sustainability governance) to ensure that social compliance is ensured throughout the global supply chain.

In *Chapter 3*, we investigate how buyers can govern social compliance in their global supply chains, given that global suppliers are embedded in multiple institutional environments with diverging expectations of sustainable conduct (Busse, Kach, & Bode, 2016). We argue that relational governance, i.e., buyer-supplier collaboration, stimulates social compliance performance of global suppliers, but its efficacy is dependent on the supplier country's institutional context. We broadly distinguish between formal institutions as governmental laws and state regulations which exert coercive pressures on supplier firms to adopt institutionally prescribed structures and practices, and informal institutions as societal values and cultural expectations which exert normative and mimetic pressures on the organization to comply with sustainability practices (North, 1991; Scott, 2008). Especially when suppliers are embedded in *'favorable'* informal institutions with respect to social sustainability practices which expose them to a logic of appropriateness and moral obligation, relational governance will be most effective for social compliance.

We test our hypotheses in the context of a single industry, namely the apparel and footwear sector. Apparel and footwear represents an ideal research context for this study, because MNEs began to consider suppliers' environmental and social conduct in their purchasing decisions as a response to recent scandals (e.g., Rana Plaza). We collected data from multiple sources for this research: first, we gathered qualitative data from 15 Western European retailers affiliated with the Business Social Compliance Initiative (BSCI), and three NGOs. Based on the experience and feedback gained from these interviews, we designed a survey which was administered among respondents at various plants located in Asia Pacific, Latin America, and Europe to acquire cross-country data on social sustainability compliance. For the purpose of this research, we only included apparel and footwear manufacturing plants that export at least parts of their production to North America or Western Europe in our sample. This is because the origins of labor rights and improved working conditions are associated with mounting pressures from North American and Western European MNEs (Jayasinghe, 2016). The final sample consists of 381 usable supplier-level survey responses, which were pooled across 11 countries from Asia Pacific, Latin America, and Europe. The sample includes suppliers located in important apparel and footwear sourcing countries such as Bangladesh, Brazil, China, India, Indonesia, Malaysia, Pakistan, Portugal, Romania, Turkey, and Vietnam. Second, following Kostova and Roth (2002), we administered a survey amongst 88 officers and researchers of local institutions to assess the favorability of informal institutions related to social sustainability in the home country of the suppliers. Third, we used the policy drivers of the Responsible Competitiveness Index (RCI) to assess the favorability of the formal institutions related to social sustainability in the supplier country (Zadek & McGillivray, 2007). We provide a detailed description on the practitioner interviews, survey design, and data collection in *Chapter 5* of this PhD thesis.

As predicted, our findings show that the effect of relational governance on a supplier's social compliance performance is context-specific and does not suffice as a one-size-fits-it-all solution to all suppliers in an MNE's global production network. In particular, buyers should focus their collaborative activities to support the supplier's compliance process in institutional settings, which provide a favorable (normative and cultural-cognitive) climate, in which suppliers are willing and capable to absorb a buyer's knowledge for increased social compliance, but exert weak legal coercion in this regard. These findings contribute to institutional theory, and more specifically to the embeddedness literature, which highlights the role of networks as conduits for practice diffusion (Owen-Smith & Powell, 2008).

Building on *Chapter 3*, *Chapter 4* posits that the nature of modern CSR standards—vague guidelines combined with complex and heterogeneous sustainability requests—invites opportunities for suppliers to deviate from originally requested CSR practices by strategically responding to CSR pressures (Jamali, 2010; Oliver, 1991; Yin & Jamali, 2016). This may constitute a challenge for MNEs, since suppliers may not fully commit to CSR implementation, and thus risk damaging MNE reputation (Van Tulder, Van Wijk, & Kolk, 2009). By combining insights from institutional theory and the resource-based view, we develop an integrative framework which includes the breadth—the aggregated count of CSR practices implemented in the supplier firm—and the depth—the integration of CSR practices in daily routines and activities—of CSR implementation. Breadth and depth of CSR implementation together describe the highest quality of CSR implementation in a firm. These two dimensions result in a new typology with four CSR implementation strategies: (1) deficient, (2) symbolic, (3) selective, and (4) substantive. We theorize that each of these CSR implementation strategies is determined by a unique combination of governance arrangements within the supply chain (i.e., sustainability governance, which is the active support of MNEs in the supplier's compliance process) (Jiang, 2009; Locke, Qin, & Brause, 2007; Simpson, Power, & Klassen, 2012) and supplier-internal factors (i.e., motivation) (Muller & Kolk, 2010; Weaver, Trevino, & Cochran, 1999). Thus, we acknowledge the importance of both network embeddedness and active agency in institutional theory.

The research context, sampling procedure, and data collection in this chapter is similar to *Chapter 3* (see *Chapter 5* for a more detailed description on the practitioner interviews, survey design, and data collection procedure). The final sample consists of 437 usable supplier-level survey responses, which were pooled across 21 countries from South Asia (22 %), East Asia (49 %), Latin America (5 %), Eastern Europe (13 %) and Western Europe (11 %).

As predicted by institutional theory, our results show that misalignment between external CSR requests and a supplier's motivation leads to symbolic implementation (i.e., decoupling of policies from practices). However, contrary to institutional theory predictions, we find that alignment between external stakeholder requests and internal organizational goals does not necessary lead to the highest quality of CSR implementation (i.e., substantive implementation). In fact, non-compliance is not always purposeful and due to a lack of motivation but could also occur due to missing resources or capabilities (i.e., selective implementation). Thus, while the alignment between external and internal factors is necessary to avoid symbolic CSR implementation, it is insufficient to guarantee substantive CSR implementation. At the same time, MNE support does not lead to substantive implementation, if suppliers are not inherently motivated to integrate CSR in their daily routines. Thus, both MNE support and supplier motivation are important antecedents for substantive implementation.

Figure 1.1 provides a visual illustration of the research framework applied in this PhD thesis.

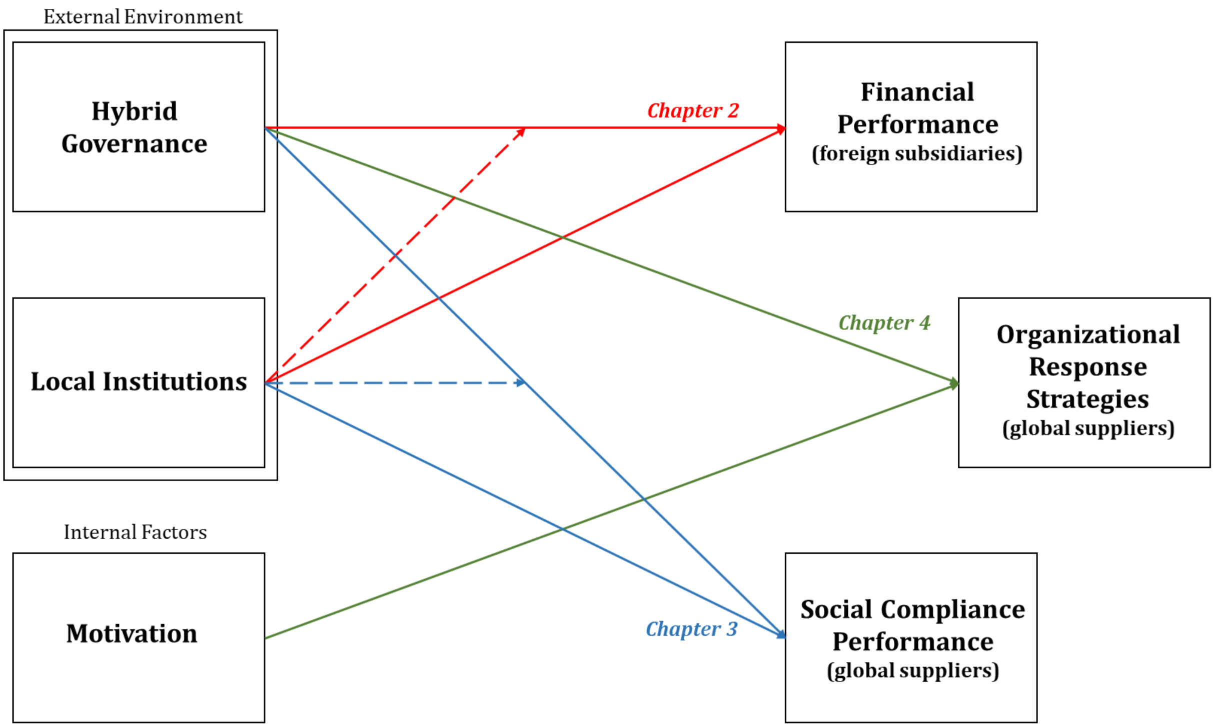

Figure 1.1. Research Framework of this PhD thesis

Chapter 2: Business Group Affiliation and Foreign Subsidiary Performance[8]

Abstract. We know business group affiliation affects the strategic behavior and performance of affiliated (first-level) firms. Whether group affiliation advantages also influence foreign subsidiary (second-level) firms is theoretically unclear and empirically unknown. In this paper, we examine this possibility and identify the boundary conditions when group affiliation market and non-market advantages deliver a competitive edge to its foreign subsidiary. We predict that not only does group affiliation enhance foreign subsidiary performance; it is more potent when host market institutional quality is weak and when the foreign subsidiary is a manufacturing firm. Our model finds empirical support in a large panel of 541 foreign subsidiaries of 170 Indian multinational firms over the period 2003-2012.

Key words: business groups, foreign subsidiary, financial performance, institutional quality, market versus non-market advantages, emerging markets, manufacturing versus services

[8] This chapter—co-authored by Sathjayit Gubbi, Vincent E. Kunst, and Sjoerd Beugelsdijk—has recently received an R&R from the *Global Strategy Journal*. A previous version of this paper has been presented at the Annual Meeting of the Academy of International Business in Vancouver (2014) and New Orleans (2016), and at the Annual Meeting of the Academy of Management in Philadelphia (2014) and Anaheim (2016).

2.1. Introduction

A prominent form of organization in developing economies, business groups (BGs) are known to evolve over time into an interconnected network of firms, often operating in unrelated industries (Granovetter, 1995; Khanna & Palepu, 1997; Yiu, Bruton, & Hoskisson, 2007). These firms, also known as BG affiliates, derive multiple benefits of affiliation to cope with local conditions and grow as and when the opportunities arise (Guillén, 2000; Khanna & Yafeh, 2007; Manikandan & Ramachandran, 2015). Our current understanding of BGs is largely built around the activities and the conduct of these affiliated or first-level member firms, mostly in the confines of the home market where these firms originate (Chang & Hong, 2000; Guillén, 2002; Hoskisson, Cannella Jr., Tihanyi, & Faraci, 2004; Luo & Chung, 2005; Manikandan & Ramachandran, 2015). The evidence clearly supports BGs to be highly effective in their home markets. What is not clear, however, is whether the homegrown advantages of BG affiliation can be transferred abroad to their foreign subsidiaries and influence its performance. Also, if BG advantages are transferable across national boundaries, what are the limiting factors? This is the central agenda of our inquiry in this paper.

The issue of transferability of BG advantages assumes importance in the wake of the aggressive internationalization of firms from developing economies, creating a new breed of global multinational firms with unique aspirations and attributes (BCG, 2014; Guillén & García-Canal, 2009; Luo & Tung, 2007). Many of these new global giants are part of large groups like LG in Korea, Tata in India, and Haier in China, and have been widely discussed both in research and in practice. Theoretically, given the embeddedness of BG affiliates in the institutional environment (Granovetter, 1995), there are reasons to believe BG advantages are most effective within the confines of the home market (Peng, 2003; Wan, 2005). In other words, BG affiliation advantages are unlikely to extend beyond home country borders. However, the empirical evidence available presents a mixed picture. Some scholars find BG membership to foster rapid internationalization (Chari, 2012; Elango & Pattnaik, 2007), while others find adverse effect of group membership on internationalization and performance (Chittoor, Sarkar, Ray, & Aulakh, 2009; Gaur & Delios, 2015). Adding to this inconsistency, we do not know yet how foreign subsidiary financial performance of a BG affiliate compares with that of a non-BG firm. Considering the globalization trend of emerging market multinational companies and the ambiguous findings in the literature, we believe it is important to know whether BG advantages are transferable across national boundaries and, by extension, across institutional environments.

In this paper, we make an important advancement by bringing the foreign subsidiary of BG-affiliated firms into focus and examining its performance. Furthermore, taking a cue from recent advancements in the BG literature (Ahuja & Yayavaram, 2011; Cuervo-Cazurra & Genç, 2008, 2011), we anchor our argumentation in the market and non-market aspects of BG advantages. We include all the intra-group network properties such as financial and human capital, information and knowledge management, and client and supplier relationship in the category of market advantages. Non-market advantages of BGs comprise all external linkages and connections (e.g., political, social) that help member firms cope better with idiosyncratic market conditions. Above distinction helps reveal the variation in BG influence on foreign subsidiary performance, subject to other factors such as host country institutional conditions and nature of firm's activity.

We propose that the inherent fungible qualities of market advantages of BGs, such as financial and human capital, are likely to benefit foreign subsidiaries across a host of institutional settings and, therefore, we expect BGs' foreign subsidiaries to perform better than the foreign subsidiaries of non-BG firms. We further expect BG market and non-market advantages to mutually reinforce and amplify foreign subsidiary performance in the institutionally weak markets. Lastly, given the inherent attributes of services –such as greater intangibility, customization, inseparability and simultaneity in terms of production and consumption (Boddewyn, Halbrich, & Perry, 1986; Campbell & Verbeke, 1994)— and limits to transferability of BG market and non-market advantages, we predict that BG affiliation works better with manufacturing firms than with service firms. Therefore, we expect the performance of manufacturing foreign subsidiaries of BG affiliates to be stronger than service foreign subsidiaries.

We test our predictions in a sample of 541 foreign subsidiaries of 170 Indian multinational firms, of which 106 are BG affiliated. Our sample covers the period 2003 to 2012 and includes manually collated subsidiary-, firm- and BG-level data from multiple databases. Controlling for subsidiary, multinational, and BG-specific effects, we find a positive relationship between BG affiliation and foreign subsidiary financial performance, which is contingent upon the host market institutional qualities and the nature of economic activities of foreign subsidiaries.

Our paper makes several important contributions. First, our study enriches international business literature stream where the role of ownership type in FDI decisions has been examined (e.g., Bhaumik, Driffield, & Pal, 2010; Filatotchev, Strange, Piesse, & Lien, 2007). Our paper makes an advancement by moving beyond the first-level affiliates and focusing on the second-level affiliate, i.e., the foreign subsidiary. More specifically, we uncover the impact of BG affiliation on foreign subsidiary performance. Second, our paper makes an important distinction between BG market and non-market advantages and their influence on foreign subsidiary performance. This insight sheds light on the mechanism by which developing country multinational firms are able to transform disadvantages to advantages, especially in other developing or institutionally weak economies (Cuervo-Cazurra & Genc, 2008, 2011). Third, we contribute to the BG literature by identifying two important limits to transferability of BG advantages, viz. institutional quality of the host country and the nature of firm activity (e.g., Chang & Hong, 2000; Lamin, 2013).

2.2. Theory and Hypotheses

Scholars define emerging economies as low-income but high-growth economies that have undergone economic liberalization to pursue free-market principles (Hoskisson, Eden, Lau, & Wright, 2000). When compared to developed economies, emerging economies have underdeveloped markets for key inputs such as labor, capital, technology, and reliable information (Hoskisson et al., 2000; Khanna & Palepu, 1997). Moreover, pursuant to economic liberalization, these economies have ushered in sweeping reforms in terms of investment policies, industrial controls and regulations governing business transactions. Consequently, emerging economies have become highly attractive destinations for foreign investments. High-growth economies like China and India continue to attract large multinationals to come and invest thereby intensifying competition for local firms (Dawar & Frost, 1999). To counter the increasing presence of global rivals in their home markets and to cope with rapid changes in technologies and product preferences, many indigenous firms in emerging economies have undertaken a series of aggressive, leapfrogging, and risky investments abroad, defying conventional approaches to multinationality (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Luo & Tung, 2007).

These firms, also referred to as emerging market multinational enterprises (EMNEs), have not waited to grow large before internationalizing. Rather, they internationalize in order to grow large (Bonaglia, Goldstein, & Mathews, 2007). Spurred by the opportunities provided by economic liberalization and a surge of entrepreneurship in the context of open markets and global competition (Ramamurti, 2004), EMNEs have rapidly scaled up their investments in many countries, including industrially advanced countries (BCG, 2014; UNCTAD, 2015). The sudden surge in the international activities of EMNEs is evident in the fact that, compared to only 21 EMNEs in the year 2000, there are now close to 150 firms figuring in the Fortune 500 list. According to the global consultancy firm PriceWaterhouseCoopers (PWC, 2010), the number of EMNEs is expected to rise by over 40 percent by the year 2024. Thus, from a global business perspective, EMNEs and their activities worldwide have been in the spotlight for a while. The academic literature on EMNEs to date has attempted to explain who they are, what they do, and under what conditions they do it (BCG, 2006; García-Canal & Guillén, 2008; Jormanainen & Koveshnikov, 2012; Luo & Tung, 2007; Mathews, 2006; Ramamurti, 2012). This includes preliminary work on how EMNEs set up foreign subsidiaries and manage foreign operations (Gubbi, 2015; Liu, Gao, Lu, & Lioliou, 2016; Wang et al., 2013). However, we know very little about the performance of these foreign subsidiaries. This is important since there are several reasons to believe that managing foreign subsidiaries of EMNEs is lot more difficult when compared to foreign subsidiaries of multinationals from advanced countries.

First, EMNEs tend to carry weak or negative image perceptions abroad with fewer exploitable ownership advantages (Bilkey & Nes, 1982; Cuervo-Cazurra & Genç, 2008; Luo & Tung, 2007; Ramachandran & Pant, 2010). Hence, EMNEs may downplay or mask their national identity to give their foreign subsidiary a fair chance to compete in the local market. Second, as newcomers to the global arena, EMNEs lack the required experience and legitimacy to exert influence on their foreign subsidiaries (Gubbi, 2015; Liou, Chao, & Yang, 2016; Wang et al., 2013). On the contrary, EMNEs may depend more on some of their foreign subsidiaries, especially those located in industrially advanced countries, as sources for new knowledge and learning (Awate, Larsen, & Mudambi, 2014; Luo & Tung, 2007; Rui & Yip, 2008). Therefore, unlike their counterparts from more advanced countries, the EMNE-foreign subsidiary relationship is much more complex with asymmetric distribution of power between the headquarters and subsidiaries. The negative connotations of being a subsidiary of EMNE and the weak influence of headquarter on subsidiary functioning can affect the subsidiary's performance. Therefore, any factor alleviating these constraints and facilitating more effective functioning of the foreign subsidiary would also influence foreign subsidiary performance. In this paper, we develop this insight further and reexamine the literature on BG influence on affiliated firms' activities. We make a departure from the extant research—which is largely restricted to BG affiliation influence within the home-country market—by investigating whether BG advantages can be extended to foreign subsidiary activities and performance. We also reflect on factors likely to strengthen or weaken the transferability of BG advantages beyond home-country markets.

2.2.1. Generic BG-Affiliation Advantages

BGs are a unique form of organization widely visible and dominant in the context of emerging economies (Colpan & Hikino, 2010; Granovetter, 1995; Khanna & Rivkin, 2001). BGs are defined as *"a group of companies that does business in different markets under common administrative or financial control whose members are linked by relations of interpersonal trust on basis of similar personal ethic or commercial background"* (Leff, 1978: 663). From an institution-based perspective, BGs evolve as a self-correcting mechanism to cope with the insufficiencies or underdeveloped nature of the strategic factor markets (Khanna & Palepu, 1997), often enabled by a society's prevailing norms and traditions (Granovetter, 1995; Yiu et al., 2007). By providing an internal market for capital, managerial talent, intermediate products, information, and other important strategic factors, BGs help affiliated firms override the deficiencies of the external market to both survive and compete effectively (Belenzon, Berkovitz, & Rios, 2013; Chang & Hong, 2000; Estrin, Pouliakova, & Shapiro, 2009). More recent research has revealed that BG affiliation not only facilitates combating institutional changes (Gubbi, Aulakh, & Ray, 2015) and competitive reactions (Ayyagari, Dau, & Spencer, 2015), it better equips member firms to tap growth opportunities provided by increasing globalization (Lamin, 2013; Manikandan & Ramachandran, 2015).

From a resource-based perspective, BG-affiliated firms derive their strength from two sources. The first source, called market advantages or capabilities, includes unique intra-group network attributes such as reputation, financial capital, human resources, information, and knowledge scope spread across several industries and consumer markets (Belenzon & Berkovitz, 2010; Belenzon et al., 2013; Buchuk, Larrain, Muñoz, & Urzúa, 2014; Jia, Shi, & Wang, 2013). The second source, non-market capabilities or advantages, is comprised of social and political connections nurtured and invested over time. According to Cuervo-Cazurra and Genç (2011), the fundamental difference between market and non-market advantages relates to the end-purpose of use: market advantages are primarily aimed at improving the competitiveness of the firm vis-à-vis rivals, whereas non-market advantages essentially help the firm to cope with the unique aspects of the institutional environment (e.g., weak legal system) in which it operates. Moreover, market advantages or capabilities generate monopolistic or Ricardian rents for the firm (Peteraf, 1993), whereas non-market advantages or capabilities generate *'influence rents'* (Ahuja & Yayavaram, 2011) by preempting and manipulating the rules of business to suit the focal firm. For example, BGs in Korea and Indonesia thrived due to the political patronage and preferential treatment they received, often giving some BGs the first-mover advantage over other firms in newly opened industries (Guillén, 2000; Wan, 2005). By extension, BGs may also leverage their political or social connections to either preempt policy changes or even manipulate them to favor their own affiliates.

A large body of scholarly work is now available where the merits and demerits of BG affiliation has been extensively examined across several empirical contexts (see Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011 and Holmes, Hoskisson, Kim, Wan, & Holcomb, 2016 for recent reviews). Specific to performance, the findings remain inconclusive and often at odds. While some studies report BG affiliation to have positive effect on firm performance (e.g., Chang & Hong, 2000; Estrin et al., 2009; Khanna & Rivkin, 2001), others find BG affiliation of little or no consequence to firm performance (e.g., Carney et al., 2011). Moreover, the merits and demerits of BG affiliation are derived by comparing directly affiliated (or first-level) firms of BGs with their non-BG peers in the home-country context. There has been little or no emphasis on the strategic aspects of indirectly affiliated (or second-level) firms such as the foreign subsidiaries. In other words, it is unclear whether BG affiliation advantages can extend beyond the home-country market and affect foreign subsidiary performance[9].

In our paper, we bridge some of the gaps and make an important advancement. We ask the question, *"Does BG affiliation benefit foreign subsidiary performance and, if so,*

[9] Among the notable exceptions, Garg and Delios (2007) report mixed evidence of BG affiliation influence on foreign subsidiary survival for Indian firms, whereas Chung and co-authors (2008) find foreign subsidiaries of Japanese BGs have a better chance of surviving host country crises.

under what conditions?". We begin our theorization by examining the transferability of BG advantages across national borders.

2.2.2. Transferability of BG-Affiliation Advantages Abroad

According to the classical theory of FDI, foreign subsidiary performance is directly associated with the transferability and fungibility of resources and capabilities across national borders (Dunning, 1993; Fang, Wade, Delios, & Beamish, 2007; Hu, 1995; Hymer, 1960, 76). More precisely, *"[...] superior subsidiary performance comes from the possession, transfer, and deployment of the parent's valuable, rare, and inimitable resources"* (Fang, Wade, Delios, & Beamish, 2013: 30). In the context of EMNEs, access to financial resources is valuable and rare given the underdeveloped nature of capital markets at home (Khanna & Palepu, 1997). Affiliation with BGs allows member firms to tap into the financial reservoir of the group (Buchuk et al., 2014; Jia et al., 2013), enabling foreign subsidiaries to seize and act upon business opportunities in the host market. This ability to act in a timely and decisive manner gives foreign subsidiaries of BG firms an inimitable and non-substitutable advantage over non-BG foreign subsidiaries.

In addition, the strong financial backing of the group permits a superior capacity to weather risks and sustain delayed returns on investments (Boutin, Cestone, Fumagalli, Pica, & Serrano-Velarde, 2013; Jia et al., 2013). This capacity can be hugely rewarding in developing markets where long-term commitment, and the ability to capitalize on unfolding opportunities is considered valuable (Arnold & Quelch, 1998). This is evident from the experience of a Korean BG, LG Electronics, in several emerging markets such as India and Brazil (Ramaswamy, 2007). In each instance after entry, the LG subsidiary turned profitable only after signaling long-term commitment, negotiating economic crises and making enormous investments to create brand awareness and local identity. Therefore, deep pockets of a BG and the ownership rights to transfer group resources to member firms and their subsidiaries may provide a distinct advantage to BG firms as compared to non-BG firm.

Besides comparative financial advantages, foreign subsidiaries of BG-affiliated firms are able to benefit from the managerial talent pool, information, and experiential knowledge available across the length and breadth of the intra-group network. For instance, in the case of the Tata group of India, the best practices of each member affiliate is identified and transmitted to other group members. The Tata Group Corporate Center and the Group Executive Office play an influential role in the globalization of member firms by making key human resources and funding available when needed, disseminating critical experience and learning group-wide, and negotiating with suppliers for the whole group to bring down procurement costs (Khanna, Palepu, & Bullock, 2009). Even in the more mature markets, the unique ability of BGs to re-allocate labor within the group more flexibly can provide a clear competitive advantage to the affiliated firm (Belenzon & Tsolmon, 2016). Thus, local employees and management of foreign subsidiaries are likely to feel more reassured and incentivized working for affiliates of a BG as opposed to unaffiliated firms (Feinberg & Gupta, 2009).

In summary, BG-affiliated foreign subsidiaries tend to gain from the many market advantages of the BG, resulting in higher financial performance compared to the performance of subsidiaries not part of a BG. The above arguments logically lead to our first hypothesis:

Hypothesis 1. *Among foreign subsidiaries of EMNEs, those belonging to BG-affiliated firms deliver stronger financial performance than those belonging to non-BG firms.*

The previous discussion focused on the market advantages of BG membership such as financial and managerial talent pool, information related to investment opportunities, and experiential knowledge shared across subsidiaries. We do recognize that in the more advanced markets, some of the market advantages may be muted—for example, well-developed debt and equity markets provide a level playing field to all players by way of easy access to bank loans and a pool of investors willing to fund profitable ventures (cf. Jia et al., 2013). By contrast, in countries with low levels of institutional development and scarce resources, having access to intra-group resources may not only insulate the foreign subsidiary from the local market vulnerabilities, these firms may use this advantage to outcompete other local firms (Belenzon et al., 2013; Boutin et al., 2013). In other words, *"there is a 'substitution' between BG-affiliation effects and ambient institutional efficiency on firm-level performance"* (Chittoor, Kale, and Puranam, 2015: 1279). Additionally, in contexts with low levels of institutional development, firms may have to cope with country-specific political and economic hazard (Lessard, 1989). One effective strategy to cope with such risks is to immunize the focal firm by more tightly integrating it with the parent firm's global production and trading network (Feinberg & Gupta, 2009). Extending this line of thought to the foreign subsidiary of a BG firm, not only can it integrate with its immediate parent's global production and trading network, it also gets to access the global network of sister affiliates of the parent. Thus, in terms of access to resources and information pool cutting across countries and industries, coinsurance benefits of BG affiliation, and immunized from local institutional hazards, foreign subsidiary of BG firm holds a clear advantage over any other local firm. In other words, the market advantages of BG affiliation become more potent when the institutions are weak or underdeveloped.

Moreover, in institutionally weak settings the nonmarket advantages of BG affiliation also tend to become more effective for a number of reasons. First, as Guillén and García-Canal (2009) have pointed out, EMNEs operate effectively in developing countries with peculiar political, regulatory, and cultural conditions. These peculiar conditions include *"inefficient judiciary, unpredictable and burdensome regulations, heavy bureaucracy, political instability or discontinuity in government policies"* (Cuervo-Cazurra & Genç, 2008: 4). Research attributes BG proliferation in these contexts as an organizational response to cope with institutional oddities (Khanna & Palepu, 1997; Khanna & Yafeh, 2007) and evidence suggests such homegrown experiences to cope with disadvantages can be converted into an advantage in other similar contexts (Cuervo-Cazurra & Genc, 2008). More specifically, nonmarket advantages such as nexus with political class, the ability to influence government policy, shape regulatory space, and drive performance is more valuable in emerging and developing economies (Rajwani & Liedong, 2015). As a case in point, Bharti Airtel of India entered Africa in 2010 driven by its similarities with the home market in terms of demographics, economic conditions, colonial legacies, culture, and language, as well as the ease of dealing with governments in Africa (Palepu & Bijlani, 2012).

Second, once a firm has developed strong political and social connections at home, these connections can be leveraged to internationalize and become a global player. For instance, governments in several countries (e.g., China, Korea, Indonesia) openly favored formation of BGs and nurtured their diversification and expansion to become global firms (Khanna & Yafeh, 2007; Lu, Liu, Wright, & Filatotchev, 2014). Such politically and socially connected firms may reap the benefits of being privy to exclusive foreign investment opportunities secured by government-to-government agreements. In turn, the foreign subsidiary derive benefits from several first-mover advantages such as acquiring local assets at low costs, cutting through bureaucratic red tape, and negotiating favorable deals with local agencies (Buckley , Clegg, Cross, Liu, Voss, & Zheng, 2007)—all contributing to the subsidiary performance.

Third, in addition to benefitting from the social and political connections, BG firms' foreign subsidiaries are also benefitted more by any ethnic, cultural and historical ties between the home and host countries. EMNEs are known to invest in locations with strong ethnic, cultural and historical ties due to perceived benefits of immediate recognition, enhanced potential for exploiting ownership advantages, and improved access to local resources (Filatotchev et al., 2007; Gubbi & Sular, 2015; Miller, Thomas, Eden, & Hitt, 2008). According to Dawar and Frost (1999), EMNEs are in a position to extend home-country advantages in analogous markets with similar consumer preferences, geographic proximity, and common and linguistic heritage. Guillén and García-Canal (2009) extend this argument further by pointing out that 'ethnic brands' possessed by EMNEs, especially in consumer goods, have an appeal not only in the home country but also to the ethnic diaspora in foreign countries. Since BGs evolve into powerful brands over time in the home market (Khanna & Palepu, 1997), we expect foreign subsidiaries of BG firms to also benefit from the BG's reputation and brand appeal at home in host markets with ethnic and cultural links.

In summary, foreign subsidiaries of BG firms located in institutionally weak or similar markets as home benefit from enhanced market advantages of BG network. Additionally, these foreign subsidiaries derive multiple benefits of nonmarket advantages of BG affiliation to gain a competitive edge over non-BG rivals. Therefore, we expect market and non-market advantages of BG affiliation to mutually reinforce and deliver stronger financial performance in foreign subsidiaries of BG firms. We propose:

Hypothesis 2. *The BG affiliation advantages (both market and non-market) benefit foreign subsidiary financial performance more when the subsidiary is located in institutionally weak countries.*

2.2.3. Transferability of BG-Affiliation Advantages across Sectors

We earlier defined BG market advantages as those emanating from unique intra-group network attributes such as reputation, financial capital, human resources, information, and knowledge scope spread across several industries and consumer markets. We also stated that market advantages primarily improve the competitiveness of the foreign subsidiary of the affiliated firm. BG non-market advantages, on the other hand, comprised of social and political connections nurtured and invested over time. Such non-market advantages help the foreign subsidiary of the affiliated firm to cope with unique institutional conditions prevailing in the host market. In the next part of our model, we examine whether the above BG market and non-market advantages work equally effectively across all types of economic activities carried out by a firm. While developing the hypothesis, we factor some of the unique aspects of the empirical setting for this paper, namely, the Indian multinational firms.

Empirical data on Indian firms shows that the knowledge-based services firms were one of the earliest to internationalize and become multinational (Gaur, Kumar, & Singh, 2013). Moreover, ever since Indian firms began investing in foreign markets, foreign direct investments as a percentage of total assets have been the highest for Indian services among all sectors (Chari, 2012). Indian services sector, which is dominated by information technology (IT) industry with clients located mostly in the developed markets (Lamin, 2013), tends to rely heavily on client-specific and project management capabilities (Ethiraj et al., 2005). In other words, the foreign subsidiaries of Indian services firm are more likely to be geographically concentrated performing highly customized activities. Indian manufacturing firms, on the other hand, own foreign subsidiaries in both developing and developed markets and perform a whole range of value-added activities depending on the country-specific location advantages (Gubbi et al., 2010). Above stylized facts become relevant considering the well documented differences in the nature of activities pertaining to manufacturing and service, namely, intangibility, perishability, customization, inseparability and simultaneity in terms of production and consumption, greater heterogeneity and regulatory control (Boddewyn et al., 1986; Campbell & Verbeke, 1994). We propose that BG advantages are more conducive to manufacturing than to services for the following reasons.

First, the greater involvement of intangibles and the need for customization makes service provision difficult to standardize (Campbell & Verbeke, 1994; Kirca et al., 2016).

Moreover, due to inseparability feature—necessary involvement of the customer for the production of service—, mass production is difficult or impossible (Knight, 1999). The unique aspects of Indian service multinational firms described above deprive their foreign subsidiaries to benefit from the competitive advantage of scale and scope facilitated by BG market advantages. Second, the non-market advantages of BGs, which we argued earlier to be more effective in weak institutional contexts, are less useful to foreign subsidiaries of Indian service firms located in developed countries. Given the maturity of governing institutions, little or no interference by the government in business activities, and the expected competitive rivalry in developed markets, we foresee little or no scope for BG non-market advantages of social and political goodwill to play a role and provide a competitive edge to the foreign subsidiary.

By contrast, foreign subsidiaries of Indian manufacturing firms have no such limitations and can enjoy BG market and non-market advantages, irrespective of their location. For instance, these firms can derive market advantages of BG affiliation such as internal resources to build economies of scale and scope. Besides, there is tremendous potential for fruitfully leveraging the cross-national asymmetries to discover new opportunities and convert into a competitive advantage (Madhok & Keyhani, 2012). For instance, the high value, front-end capabilities of foreign subsidiary located in industrially advanced countries combined with low cost, back-end capabilities of the Indian parent benefit the parent and the subsidiary equally. Moreover, as discussed earlier, both market and non-market advantages of BG affiliation work better when the foreign subsidiary of Indian manufacturing firm is located in institutionally weak market. Therefore, we expect,

Hypothesis 3. *The BG affiliation advantages (both market and non-market) benefit foreign subsidiary financial performance more when the subsidiary is in manufacturing than in services.*

2.3. Methodology

2.3.1. Sample and Data Collection

We test our hypotheses in the context of multinational firms from India. From the moment India opened its economy to international trade and foreign competition in 1991, the economy grew at an annual rate of approximately seven percent per year and has become increasingly integrated in world markets (World Bank, 2013). According to UNCTAD (2015), Indian firms have been one of the most active and aggressive in terms of foreign direct investment (FDI) amongst all of the emerging economies. India recorded the highest number of cross-border acquisitions (CBAs) in the first decade of the century and, in value terms, this particular mode accounted for a majority of its outward FDI. Given the prominence of BGs in India and the recent surge in outward FDI by Indian firms, India provides a suitable setting for testing our hypotheses.

We use multiple sources of data to compile our sample of multinational firms. We use the ORBIS database (Bureau van Dijk) to identify all foreign subsidiaries wholly owned by Indian multinationals. Due to unavailability of subsidiary-level data prior to the year 2003 in ORBIS, we investigate a sample over a 10-year period ending 2012. This period is appropriate in the context of our study since it covers years of rapid growth and internationalization by Indian firms (2004–2008) (UNCTAD, 2015), followed by a sharp decline in the global economy. Thus, the sample includes years of high and low growth across sectors and economies.

Next, we couple the subsidiary-level data of ORBIS with the Prowess database, as published by the Centre for Monitoring Indian Economy. Through the Prowess database we collect both the parent firm-specific data as well as the BG-level data. The Prowess database covers most of the public Indian companies, consisting of both BG-affiliated and non-affiliated firms, and has been extensively used for multinationals and BG-related research on India (e.g., Elango & Pattnaik, 2007; Manikandan & Ramachandran, 2015). Finally, we use the World Bank to collect country-level data. Our final sample includes 541 foreign subsidiaries of 170 Indian multinationals (of which 106 are BG affiliated) active in 44 host countries. Our sample comprises 2696 subsidiary-year observations.

2.3.2. Variables and Measures

Dependent Variable.

We use return on assets (ROA) to measure *foreign subsidiary performance*. Both strategy and international business literature have used ROA extensively as a measure of financial performance (Chittoor et al., 2009; Elango & Pattnaick, 2007; Gaur & Kumar, 2009; Khanna & Palepu, 2000). ROA explicitly considers the assets used to support business activities and determines whether the company can generate an adequate return on these assets. Internationalizing firms need asset power since *"resources are needed for absorbing the high costs of marketing, for enforcing patents and contracts, and for achieving economies of scale"* (Agarwal & Ramaswami, 1992: 4).

Independent Variables.

BG affiliation. Following precedence, we construct a dummy variable—value of one if the foreign subsidiary is part of a BG member firm and zero otherwise. This is a standard practice in the literature on BGs since affiliates do not usually belong to two different BGs at the same time (e.g., Belenzon & Berkovitz, 2010; Khanna & Palepu, 2000; Manikandan & Ramachandran, 2015).

Institutional quality. We measure institutional quality in each host country with the World Governance Indicators (Kaufmann, Kraay & Mastruzzi, 2010). The World Governance Indicators measure the governmental quality of a country through six dimensions (see Appendix A of this chapter). Following current practices, we add the six dimensions together in order to create an institutional quality index (e.g., Dikova, 2009; Malhotra & Gaur, 2014). As the world governance index highly correlates with other established measurements of institutional quality, such as the economic freedom index and the international country risk guide, we standardize our measure of institutional quality to facilitate the interpretation of our interaction model.

Control Variables.

We control for both the *foreign subsidiary age* and *foreign subsidiary size*, as well as for the *EMNE age* and *EMNE size*. We control for financial strength of the parent by including *EMNE performance* (ROA) and *EMNE current ratio*. We lag these variables to avoid potential endogeneity problems. Using the number of foreign subsidiaries of the EMNE, we also control for *EMNE internationalization*, since more experienced multinationals are likely to perform better abroad. We control for *state owned EMNEs* (parent owned by Indian government) and *foreign owned EMNEs* (parent owned by non-Indian entity) by including two sets of dummies. Furthermore, we add the three-year average of both the *EMNE's R&D expenditures* and the *EMNE's marketing expenditures* as controls. We introduce a control for host country *market size* in the form of host country gross domestic product (Buckley et al., 2007). We control for *cultural distance* using Hofstede data and by creating the Kogut and Singh index. We also control for whether the subsidiary operates in the *same industry* as the multinational firm. Moreover, we add industry fixed effects for the industry in which the EMNE is active, the industry in which the subsidiary is active, and the year of observation. Finally, to exclude any confounding effect of BG characteristics not accounted for, we incorporate group-specific effects by including dummies for each BG. A full overview of all included variables, variable transformations, and sources is available in Appendix A of this chapter.

2.3.3. Estimation Procedure

As subsidiaries are nested in EMNEs (some of which are nested in BGs, others are not), our data follows a partially nested structure. To match the analysis to this particular data structure, we avoid *'lumping together'* all the non-affiliated subsidiaries in one large cluster, which would result in biased effects (Baldwin, Bauer, Stice, & Rohde, 2011). Rather, we create a unique cluster ID for each of the non-affiliated EMNEs, incorporating their unique variance, and measuring all variation present in this nested data structure. By adding BG-specific dummies, we control for BG-specific effects. We create unique intercepts for each BG such that specific BGs may differ in their effect on subsidiary performance. Since BG affiliation is time-invariant (although, in theory, affiliation can change over time, we do not observe such a change in our sample) and a fixed-effects model absorbs all variation between groups, we estimate a random-effects panel model (Kohler & Kreuter, 2012). A Hausman test confirms that a random-effects model is preferred over a fixed-effects model for our data (ρ=0.38).

2.4. Results

Table 2.1 shows the mean and standard deviation of all variables, as well as their correlations. The correlations among our independent variables are low and we find no evidence of multicollinearity (all variance inflation factors are below 10). Table 2.2 presents the results of our regression analyses. We stepwise add all independent variables of interest. The full model (Model 3) with all key independent variables explains 14.75 percent of the total variance and represents a significant improvement over the controls-only model, as reflected in the partial F-test (prob>χ^2=0.00).

The first model includes control variables only. In Model 2, we add the dummy for BG affiliation. Our results suggest a positive generic direct effect of BG affiliation on foreign subsidiary financial performance (β=3.88; ρ=0.05), providing initial support for our first hypothesis. The coefficient of the variable continues to remain positive and significant even after the inclusion of moderator and its interaction (Model 3). The first model includes control variables only. Thus, we claim support for first hypothesis.

To test our second hypothesis in which we predict that BG-affiliation benefits are more prominent if the foreign subsidiary is located in institutionally weak settings, we interact BG affiliation with the host country institutional quality. In Model 3, we find this interaction has a negative effect on foreign subsidiary performance (β=-1.92; ρ=0.01). As institutional quality measure is a standardized value, containing both positive and negative values, BG affiliation benefits the financial performance of foreign subsidiaries located in institutionally weak environments, thereby supporting Hypothesis 2.

Finally, we test Hypothesis 3 by creating two subsamples: EMNEs in the manufacturing industry (Model 4) and EMNEs in the services industry (Model 5). Model 4 contains results obtained using the subsample with only manufacturing firms. The model explains 20.7 percent of the total variance and represents a significant improvement over the controls-only model (prob>χ^2=0.00). Model 5 contains results obtained using the Indian services firms. This model explains 19.76 percent of the total variance and represents a significant improvement over the controls-only model (prob>χ^2=0.01). According to Hypothesis 3, BG affiliation benefits are stronger for manufacturing than for services. Surprisingly, in both Model 4 and Model 5, we do not find a significant direct effect of BG affiliation on foreign subsidiary performance.

Table 2.1. Means, Standard Deviations, and Correlations

Variables	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Foreign Subsidiary Performance	3.02	10.50																
2. BG affiliation[a]	0.77	0.42	0.04															
3. Institutional Quality[c]	0.00	1.00	-0.02	0.08														
4. Market size	1960.73	2018.03	0.05	0.09	0.14													
5. Cultural Distance	1.96	1.48	-0.05	-0.06	-0.30	-0.02												
6. EMNE size[b]	6.83	1.79	0.01	0.38	0.02	-0.03	-0.02											
7. EMNE age	41.82	30.88	0.07	0.21	-0.03	0.03	0.14	0.11										
8. EMNE R&D expenditures	25.42	60.50	-0.01	0.03	-0.06	-0.02	0.02	0.40	0.20									
9. EMNE marketing expenditures	56.11	105.26	-0.03	0.15	0.08	-0.09	-0.13	0.61	-0.07	0.37								
10. EMNE internationalization	33.06	32.52	0.09	-0.20	-0.05	0.12	0.01	-0.17	-0.31	-0.07	-0.30							
11. EMNE current ratio	1.62	1.34	-0.03	-0.19	-0.02	0.05	0.06	-0.32	-0.06	-0.16	-0.34	0.23						
12. EMNE performance	2.19	3.77	0.01	-0.05	0.03	0.01	-0.01	-0.07	-0.10	-0.09	-0.11	0.08	0.26					
13. Foreign owned EMNE[a]	0.04	0.21	0.13	-0.39	-0.21	-0.06	-0.02	-0.21	-0.05	-0.09	-0.11	0.13	0.06	0.04				
14. Government owned EMNE[a]	0.01	0.10	0.02	-0.17	0.06	-0.04	-0.02	0.01	0.06	-0.03	0.07	-0.08	-0.03	-0.03	-0.02			
15. Foreign Subsidiary size[b]	9.55	2.04	0.02	0.15	0.08	0.10	-0.11	0.31	0.17	0.20	0.26	-0.13	-0.12	-0.06	0.00	0.02		
16. Foreign Subsidiary age	12.90	13.93	0.07	0.01	0.08	0.12	-0.02	-0.01	0.24	0.07	0.00	-0.09	-0.10	-0.05	-0.01	0.00	0.10	
17. Same industry[a]	0.43	0.49	0.08	0.15	-0.10	0.05	0.16	-0.06	0.02	-0.17	-0.15	0.13	0.08	0.02	0.06	-0.08	0.05	0.09

n=2,296, [a] binary variable, [b] log value, [c] standardized

Table 2.2 Main Regression Results

Dependent variable	Foreign subsidiary performance (ROA)				
	Full Sample			Manufacturing	Services
	Model 1	Model 2	Model 3	Model 4	Model 5
BG affiliation **(H1)**		**3.88****	**4.30****	4.08	3.02
		(0.05)	**(0.04)**	(0.48)	(0.29)
Institutional quality (IQ)			0.63	2.03***	-3.56**
			(0.34)	(0.01)	(0.03)
BG affiliation * IQ **(H2)**			**-1.92*****	**-3.11*****	2.01
			(0.01)	**(0.00)**	(0.23)
Market size	0.00*	0.00*	0.00*	0.00	0.00
	(0.08)	(0.10)	(0.07)	(0.14)	(0.86)
Cultural distance	-0.61***	-0.61***	-0.64***	-0.36	-0.85***
	(0.00)	(0.00)	(0.00)	(0.12)	(0.01)
EMNE size	0.84**	0.74**	0.73**	0.44	0.97
	(0.02)	(0.04)	(0.05)	(0.35)	(0.16)
EMNE age	0.09***	0.08***	0.09***	0.16***	0.06
	(0.00)	(0.00)	(0.00)	(0.00)	(0.51)
EMNE R&D expenditures	-0.01	-0.01	-0.01	0.01	0.01
	(0.27)	(0.25)	(0.32)	(0.35)	(0.90)
EMNE marketing expenditures	0.01	0.01	0.01	0.00	0.01
	(0.24)	(0.26)	(0.27)	(0.67)	(0.41)
EMNE internationalization	0.06***	0.06***	0.07***	-0.01	0.08***
	(0.00)	(0.00)	(0.00)	(0.72)	(0.00)
EMNE current ratio	-0.02	0.04	0.04	0.07	-0.05
	(0.92)	(0.85)	(0.88)	(0.83)	(0.91)
EMNE performance	0.05	0.04	0.05	-0.07	0.05
	(0.43)	(0.48)	(0.46)	(0.77)	(0.52)
Foreign owned EMNE	6.20***	7.14***	7.28***	13.00***	5.03*
	(0.00)	(0.00)	(0.00)	(0.00)	(0.05)
Government owned EMNE	1.70	3.01	2.07	-2.61	
	(0.61)	(0.36)	(0.54)	(0.49)	
Foreign subsidiary size	-0.13	-0.13	-0.10	-0.14	-0.06
	(0.32)	(0.33)	(0.44)	(0.36)	(0.82)
Foreign subsidiary age	0.03*	0.03*	0.04**	0.04**	0.32***
	(0.07)	(0.08)	(0.01)	(0.02)	(0.00)
Same industry	-3.09**	-3.35**	-3.17**		
	(0.03)	(0.02)	(0.03)		
Constant	-10.32***	-10.41***	-10.96***	-8.91**	-20.62***
	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
N	2,293	2,293	2,293	1,515	778
R^2	14.88	14.68	14.75	20.70	19.76
Partial F-test	NA	0.04**	0.00***	0.00***	0.01***

***ρ<0.01; **ρ<0.05; *ρ<0.10. All models control for subsidiary industry, year, and business group fixed effects.
Note: p-values are shown in parentheses.

However, we do observe the interaction between BG affiliation and institutional quality to be negative and significant (β=-3.11; ρ=0.00) for the manufacturing firm subsample and positive and non-significant (β=2.01; ρ= 0.23) for the services subsample. Clearly, contingencies seem to be at play and the results need interpretation with caution.

We probed the results reported in Table 2.2 further by plotting the relevant coefficients over the range of values in our sample. As marginal effects for interaction models are hard to interpret from regression tables (Haans, Pieters, & He, 2016), we plot in Figure 2.1 the marginal effect of BG affiliation for all levels of host country institutional quality. The graph shows the marginal effects (i.e., to what degree does BG affiliation have an effect on foreign subsidiary performance, compared to non-BG affiliated subsidiaries) for manufacturing and service industry, as well as the entire sample as a whole.

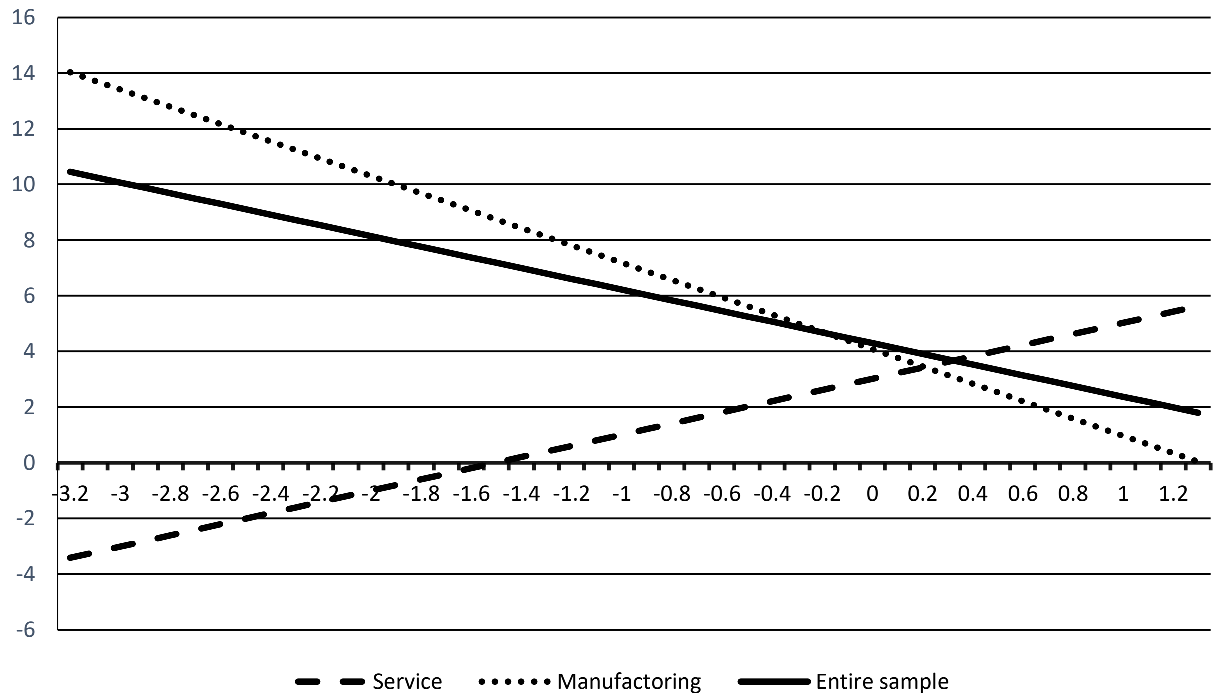

Figure 2.1. Marginal Effects of BG Affiliation on Foreign Subsidiary Performance

From the plot in Figure 2.1, two interesting observations surface: first, the marginal effects of BG affiliation on foreign subsidiary performance decline with institutional quality, confirming Hypothesis 2. Second, the decline in marginal effects of BG affiliation are much more steep for manufacturing firms suggesting that under weak institutional conditions, BG benefits are stronger for manufacturing firms than for services firms. This partially supports our Hypothesis 3. Interestingly, Figure 2.1 seems to suggest that BG benefits for services tend to increase with institutional quality of the host country. In other words, BG affiliation appears to confer some kind of an advantage to foreign subsidiaries of services firms located in developed economies. This finding merits further discussion and probe using more fine-grained sample and analytical techniques.

To test for the robustness of our results, we substitute our dependent variable and our key independent variable with alternative measures. First, we retested all our models substituting ROA with return on equity (ROE) measure. Second, we use the average scores of five dimensions of the economic freedom index from the heritage foundation as an alternative indicator of institutional quality (e.g., Gubbi et al., 2010; Meyer, Estrin, Bhaumik, & Peng, 2009). The results with above changes are qualitatively similar to those reported in Table 2.2 and validate our claims.

2.5. Discussion

2.5.1. Theoretical Implications

In this article, we examine whether BG affiliation enables foreign subsidiaries of member firms to perform better than foreign subsidiaries of non-BG firms. Our central argument hinges on the premise that foreign subsidiaries of EMNEs affiliated with BGs benefit from the transferability of both market and non-market advantages of BGs. Furthermore, BG affiliation benefits are particularly stronger when the foreign subsidiaries are located in institutionally weaker countries and operate in the manufacturing sector. We test our hypotheses on a longitudinal panel of Indian multinational firms, and find strong support for our predictions. These results are meaningful, and have important theoretical and practical implications.

First, we find consistent support for a positive link between BG affiliation and foreign subsidiary performance. This finding enriches scholarship related to the role of ownership type in FDI decisions (Bhaumik et al., 2010; Gaur, Kumar, & Singh, 2014; Lamin, 2013; Li, Cui, & Lu, 2017, Filatotchev et al., 2007; Chung, 2014). Ours is the first to establish the connection between BG affiliation—a very important form of ownership in emerging and developing countries—and foreign subsidiary performance. Our paper makes and important advancement by suggesting that BG advantages are transferable across national borders under certain specific conditions. These advantages enable the focal subsidiary to outperform rival subsidiaries of non-BG or standalone EMNE parents.

Second, our findings show that BG affiliation advantages are transferable abroad and are particularly more effective when the foreign subsidiary operates under weak institutional conditions. Prior research has shown that multinational firms from developing countries are able to transform disadvantages of coping with difficult conditions at home to competitive advantages in other similar countries (Cuervo-

Cazurra & Genç, 2008). Our paper makes an important contribution by revealing BG affiliation as an additional factor that matters when transforming disadvantages to an advantage. By segregating out BG advantages into market and non-market advantages, our paper reveals the mechanism by which BG affiliation benefits work better in institutionally weak settings.

Lastly, we find that BG affiliation benefits work better for foreign subsidiaries in manufacturing, particularly when they are located in developing countries. The role of BG membership has been extensively discussed in the past (Chang & Hong, 2000; Chittoor et al., 2009, 2015; Elango & Pattnaik, 2007; Guillén, 2002; Hoskisson et al., 2004; Lamin, 2013; Luo & Chung, 2005; Manikandan & Ramachandran, 2015), but the literature has mostly focused on the effect of BG membership in the domestic setting. Moreover, the studies assume that BG affiliation works equally well with all member firms, irrespective of the nature of economic activities performed. In this regard, ours is the first to show that not only does the nature of economic activity of the focal firm matters the location too matters. Our study highlights the boundary conditions for BG affiliation to generate benefits for multinational activity.

Our study also offers valuable insights and guidelines for managers. The growth of FDI activities by EMNEs has resulted in greater challenges for multinational firms from more advanced countries (Gubbi et al., 2010; Luo & Tung, 2007). There is a growing need for managers of advanced country multinationals to assess EMNEs as potential competitors in the international market. Our results imply that EMNEs affiliated to BGs are likely to pose a competitive threat, especially if their foreign subsidiaries are located in institutionally weak countries, and active in the manufacturing sector. On the other hand, managers of EMNEs affiliated to BGs would know better when to tap into BG resources and when to develop resources and capabilities at the foreign subsidiary level. Indian managers in service sector have something to consider given our findings. Perhaps BG affiliation mitigates or compensates for negative country-of-origin perceptions associated with firms hailing from developing countries. This perception is particularly strong in developed countries, where most of the business of Indian service sector is located. The increasing positive (but not significant) relationship between BG affiliation and foreign subsidiary performance with improving institutional quality of host country in the case of Indian service subsample can be a useful guide for managers of these firms.

2.5.2. Limitations and Future Directions

We recognize that our study has several limitations that may suggest a number of avenues for future research. First, our study employs a sample of Indian multinational firms. Even though the theoretical arguments we have proposed are context free and should apply to BGs in other emerging economies, it would be useful to replicate this analysis with multi-country settings to establish generalizability and external validity of our findings. Moreover, although our sample of Indian multinational firms allows us to compare foreign subsidiary performance of group-affiliated viz. unaffiliated EMNEs, we do not know what stance group-affiliated EMNEs have towards multinationals from developed countries. It would be interesting to extend our study by comparing foreign subsidiaries of EMNEs and multinationals from more advanced economies to understand whether BG affiliation provides an edge and under what conditions. Second, our study stresses the context specificity of market and non-market capabilities of BG-affiliated firms. Due to non-availability of data, we could not directly measure these market and non-market advantages of BG affiliation. Future research can specifically develop these measures by employing other techniques such as content analysis and survey questionnaire. Third, our study relies upon accounting measures of performance. Future studies should consider using more distinct and diverse measures such as market- and operation-based measures.

2.5. Conclusion

This paper advances research in international business on EMNEs and BGs by shifting focus away from home conditions to transferability of BG advantages across national boundaries. In doing so, we uncover important contingencies influencing BG-foreign subsidiary performance relationship. We find that BG affiliation is only beneficial for foreign subsidiaries of EMNEs located in institutionally weak country and for those active in the manufacturing sector. We anchor our analysis in the market and non-market discussion, which is a novel approach to the BG literature. Although this study represents only an initial attempt into an important research area, it is our hope that it will prompt future investigation that will direct the field towards a more comprehensive understanding of foreign subsidiary performance.

Appendix A

A1. List of Key Constructs

Variable	Description	Source
(a) Dependent Variable		
Foreign subsidiary performance	Return on Assets of the foreign subsidiary.	ORBIS
(b) Independent variables		
BG affiliation	Dummy indicating whether the subsidiary is owned by an Indian parent EMNE which is member of a business group.	PROWESS
Institutional quality	Six dimensions (Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption) of the World Governance Indicators, added together and standardized.	WORLDBANK
(c) Control Variables		
Market size	Gross domestic product of the host country in billions of USD.	WORLDBANK
Cultural distance	Kogut and Singh Index on Hofstede data with four dimensions.	HOFSTEDE
Same industry	EMNE and subsidiary are in the same industry	ORBIS
EMNE size	Log of the asset size of the EMNE.	PROWESS
EMNE age	Age of the EMNE.	PROWESS
EMNE R&D expenditures	Three-year average of the capital & current R&D expenditures of the EMNE.	PROWESS
EMNE marketing expenditures	Three-year average of the advertising & marketing expenditures of the EMNE.	PROWESS
EMNE internationalization	The foreign sales of the EMNE divided by its total sales.	PROWESS
EMNE current ratio	Current ratio of the Indian parent EMNE, lagged by one year.	PROWESS
EMNE performance	Return on Assets of the Indian parent EMNE, lagged by one year.	PROWESS
Foreign owned EMNE	Dummy indicating whether the Indian parent EMNE is foreign owned.	PROWESS
Government owned EMNE	Dummy indicating whether the Indian parent EMNE is government owned.	PROWESS
Foreign Subsidiary size	Log of the asset size of the foreign subsidiary.	ORBIS
Foreign Subsidiary age	The age of the foreign subsidiary.	ORBIS

Chapter 3: Buyer-Supplier Collaboration for Social Sustainability in Global Supply Chains: the Moderating Role of Institutions[10]

Abstract. Implementing sustainability practices in global supply chains is challenging for multinational enterprises. The literature on sustainable supply chains has highlighted the effectiveness of buyer-supplier collaboration—as opposed to a purely audit-driven approach—for ensuring higher levels of supplier compliance with sustainability practices. We suggest that the effectiveness of buyer-supplier collaboration for social compliance is dependent on the institutional context of the supplier. Specifically, we propose that buyer-supplier collaboration enhances a supplier's compliance with social sustainability practices, if the supplier is located in institutional settings with favorable formal and informal institutions that stimulate social sustainability compliance. Using data from 381 apparel and footwear suppliers, which supply to Western European or North American multinational enterprises and are located in both developed and emerging countries, we show that buyer-supplier collaboration is context-specific and only effective in favorable informal settings.

Keywords: buyer-supplier collaboration, social sustainability, global supply chains, institutional theory, formal and informal institutions

[10] This chapter is co-authored by Miriam Wilhelm, Taco van der Vaart, and Sjoerd Beugelsdijk. We want to thank seminar participants at the University of Groningen for their valuable input.

3.1. Introduction

Multinational enterprises (MNEs) are increasingly called on to be more accountable for the sustainability practices of their global supplier operations (Kim & Davis, 2017). In response to recent scandals and sustainability misconduct in global supply chains, MNEs, as buying firms, coerce compliance of global suppliers with third-party sustainability standards and supplier codes of conducts (King, Lenox, & Terlaak, 2005) that are monitored and assessed through audits (Christmann & Taylor, 2006). The sole reliance on audits has been questioned, however, and the Rana Plaza disaster revealed that a lot of the involved suppliers were previously audited positively by their Western customers (Clean Clothes Campaign, 2013). Buyer-supplier collaboration could be a more effective means to achieve sustainability in the supply chain (Gimenez & Tachizawa, 2012; Jiang, 2009; Klassen & Vachon, 2003; Locke, Qin, & Brause, 2007). At the same time, collaboration is also a very costly, time-consuming, and complex task for MNEs (BCG, 2013) and MNEs often feel daunted by the idea of providing assistance to a large number of suppliers (Mamic, 2005). Thus, it is important for MNEs to identify those suppliers whose compliance will most likely be affected by relationship-building with the MNE.

Global supply chains spread across different institutional contexts, and suppliers and buyers are confronted with diverging expectations of sustainable conduct (Busse, Kach, & Bode, 2016). Institutions are composed of formal and informal aspects, which exert pressures on organizations to adopt institutionally prescribed structures and practices (North, 1991; Scott, 2008). We define formal institutions as governmental laws and state regulations, which exert coercive pressures on the supplier firm, and informal institutions as societal values and cultural expectations, which exert normative and mimetic pressures on the organization to comply with sustainability practices. Specifically, we follow calls for studying domain-specific institutional environments, rather than general country level factors (Busenitz, Gomez, & Spencer, 2000; Descotes, Walliser, Holzmueller, & Guo, 2011; Kostova, 1999) that comprise formal and informal institutions related to social sustainability. Institutional differences between geographically dispersed supply chain partners give rise to challenges for MNEs' sustainability requests and constitute a novel area of research (Busse et al., 2016; Kauppi, 2013).

While scholars are generally aware of the influence of formal institutions for global supply chains (e.g., Bai, Sheng, & Li, 2016; Wang, Zhang, Wang, & Sheng, 2016; Wu, Ellram, & Schuchard, 2014), the importance of informal institutions in the supplier's home country has scarcely been discussed. Informal institutions are particularly important in the context of social sustainability, since social misconduct attracts non-state stakeholders' attention more easily and arouses them more deeply compared to any misconduct in the environmental domain (Busse et al., 2016). Against this background, suppliers may be more receptive to following a logic of appropriateness and moral obligation (coming from informal institutions) rather than instrumentality and legal sanctions (from formal institutions). In this study, we investigate how buyer-supplier collaboration and a supplier's institutions—both formal and informal—separately and combined affect a supplier's compliance with social sustainability practices.

We obtained our data from multiple sources: first, we collected cross-national survey data from 381 global apparel and footwear suppliers, which are located in both developed and emerging countries, and supply to MNEs from North America and Western Europe. Secondly, we collect survey data from 88 representatives of local trade and industry associations and researchers in the respective supplier countries in order to determine the favorability of informal institutions for social sustainability. Third, we use secondary data from the Responsible Competitiveness Index (RCI) to assess the favorability of formal labor institutions in a supplier's home country.

Our study makes several contributions: we expand the literature on sustainability in global supply chains by showing empirically that the efficacy of buyer-supplier collaboration on a supplier's compliance depends on the underlying institutional mechanisms in the supplier's home country. More specifically, we find that a supplier's willingness and capacity to learn from MNEs increases if a supplier's home institutions promote social sustainability norms and cultural beliefs. In favorable formal settings, however, buyer-supplier collaboration has no effect on a supplier's social compliance. By focusing on social sustainability, we also extend current research on sustainability and respond to recent calls for more empirical research on social sustainability in global supply chains (Huq, Chowdhury, & Klassen, 2016; Zorzini, Hendry, Huq, & Stevenson, 2015).

3.2. Literature Review

3.2.1. Implementing Social Sustainability Practices in Global Supply Chains

MNEs, as buying firms, have a social responsibility, which is not constrained by geographical, political, or organizational boundaries (Andersen & Skjoett-Larsen, 2009; Kim & Davis, 2017). In this paper, we focus on the social dimension of sustainability, which we define as the care for workers' health and safety, as well as with their well-being in the global supply chain (Huq et al., 2016; Zorzini et al., 2015). Two principle ways of managing a supplier's sustainability conduct have been discussed in the literature on sustainable supply chains (Gimenez & Tachizawa, 2012; Klassen & Vachon, 2003; Klassen & Vereecke, 2012): (1) assessment and (2) collaboration. MNEs can assess their suppliers' compliance with sustainability standards such as ISO14001 or SA8000 or (supplier) codes of conducts through regular audits and company visits (Christmann & Taylor, 2006; King et al., 2005). In doing so, MNEs mandate that their suppliers comply with sustainability practices, for example, by threatening to withdraw production orders from them if they do not conform to the MNE's standards (Amaeshi, Osuji, & Nnodim, 2008). However, the sole reliance on assessment has been found to be insufficient for achieving compliance with sustainability practices and does not prevent sustainability misconduct in global supply chains (Christmann & Taylor, 2006; Jiang, 2009; Zorzini et al., 2015).

Alternatively, buyer-supplier collaboration has been argued to yield more positive results regarding a supplier's sustainability compliance (Frenkel & Scott, 2002; Jiang, 2009). Collaboration can be considered as a form of relational governance as it involves working directly with suppliers (Gimenez & Tachizawa, 2012). Examples of such activities are on-site consultation, education and training programs, as well as temporary personnel transfer. Such practices are likely to enhance a supplier's sustainability capabilities and technical understanding of the buyer's requirements. As a result, suppliers may learn and acknowledge the value of sustainability compliance for their own benefit, which would improve their sustainability performance (Ho, Ghauri, & Larimo, 2017). Few studies have empirically assessed the effect of collaboration on supplier compliance. In their case study of the Bangladeshi textile industry, Huq et al. (2016) have shown that buyer audits proved to be more effective than third party audits for achieving emerging country suppliers' compliance as they were perceived as more collaborative and often align with training and improvement initiatives with suppliers.

Locke et al. (2007), using Nike's compliance data covering 830 suppliers in 51 countries, have found that factories designated as Nike's 'strategic suppliers' and those frequently visited by Nike staff have higher compliance scores. In a similar vein, Jiang (2009) has demonstrated that buyer-supplier relationships in China that are characterized by open and two-way dialogue are positively related to supplier compliance with the buyer's codes of conducts. In their study of environmental sustainability in Canadian plants, Klassen and Vachon (2003) have shown that buyer-initiated collaborative activities shift the allocation of plant-level investments increasingly toward pollution prevention. While these studies have provided initial indications that collaboration is beneficial to supplier compliance with sustainability practices, most of them (with the exception of Locke et al., 2007) have been conducted in the context of a single country, not considering differences in the role of the supplier's institutional context. Moreover, the majority of these studies have not explicitly considered the social dimension of sustainability, which is likely to aggravate the challenge of global supply chain compliance.

Contrary to the environmental aspects of sustainability, which can often be clearly defined and assessed against objective standards (e.g., the amount of environmental pollution), the social conduct in global supply chains is more difficult to monitor and analyze by MNEs (Klassen & Vereecke, 2012). Furthermore, breaches of labor laws and other issues of workers' well-being inside operations of geographically and institutionally distant suppliers are even less visible to MNEs (Wilhelm, Blome, Bhakoo, & Paulraj, 2016). The active support of the buyer might, thus, be particularly important for the implementation of social sustainability, not just in terms of a risk-mitigation strategy (Hajmohammad & Vachon, 2016) but also for the development of necessary supplier sustainability capabilities (Huq et al., 2016).

3.2.2. The Role of Institutions for Sustainability Practice Implementation

Institutions define what is appropriate or legitimate in a society and affect how organizations make decisions (Scott, 2008). Institutions in the environment where firms operate–such as formal politics or informal public and cultural expectations–exert pressures on organizations to behave in certain ways in order to survive (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Institutions consist of both formal and informal rules (North, 1991; Scott, 2008), which diffuse pressures for sustainability (Campbell, 2007; Matten & Moon, 2008). Formal institutions for sustainability are instantiated in governmental rules and regulations, for example, labor market regulations like minimum wage or employment protection legislation. Cultural expectations of the society in which the organization functions shape informal institutions and are promoted and enforced through non-state stakeholder organizations such as non-governmental organizations (NGOs), media and business, and professional networks (Campbell, 2007).

Institutional theory offers an explanation of why organizations comply with sustainability practices without an obvious economic return. Existing empirical studies have most commonly explored how institutional differences within MNEs influence corporate social responsibility (CSR) strategies and the performance of MNEs and their foreign subsidiaries (e.g., Doh & Guay, 2006; El Ghoul, Guedhami, & Kim, 2017; Fransen & Burgoon, 2013; Marano, Tashman, & Kostova, 2017; McDonnel & King, 2013). Most of these studies have emphasized the formal pillar of institutions (e.g., El Ghoul et al., 2017; Marano et al., 2017), but there is also some empirical evidence that points to the influence of informal institutions on a firm's adoption of organizational CSR strategies and behaviors. For example, pressures from informal institutions such as NGOs (Doh & Guay, 2006) and consumers (McDonnel & King, 2013) lead to increased corporate participation in voluntary sustainability initiatives (Fransen & Burgoon, 2013). In the supply chain domain, only a few studies have empirically shown how overall stakeholder pressures (Sarkis, Gonzalez-Torre, & Adenso-Diaz, 2010; Tate, Ellram, & Kirchoff, 2010; Wilhelm et al., 2016) or formal institutional constraints (Wu et al., 2014) influence sustainability in global supply chains. This is surprising since local suppliers are more deeply embedded in the local institutional environment, and less *'buffered'* from local institutional pressures, as compared to foreign subsidiaries of MNEs (Kostova & Roth, 2002). Together with the lack of hierarchical fiat, a supplier's exposure to institutional pressures calls for a more dedicated investigation of how MNEs manage compliance in their global supplier firms.

More specifically, we expect that the effect of informal institutions on compliance prevails in the context of social sustainability. Non-state stakeholders are easily aroused by and may react strongly to any social misconduct involving basic human rights or working conditions, e.g., with consumer boycotts, media campaigns, or other actions (Busse et al., 2016), which would make a supplier comply with social sustainability practices because it is appropriate (according to informal institutions) and not because it is necessarily legally sanctioned (by formal institutions). Moreover, given that social sustainability is not easily measurable or quantifiable, and social sustainability misconduct is typically secretive, formal enforcement of state regulations is often difficult (Sauerwald & Peng, 2013). Hence, it is important to consider informal pressures and monitoring activities from non-state stakeholders such as NGOs or the media, which assist state regulations and raise awareness amongst all stakeholders.

In this study, we examined whether and under what institutional conditions buyer-supplier collaboration is beneficial to a supplier's compliance with social sustainability practices. We posit that the beneficial effect of buyer-supplier collaboration will be higher if suppliers are located in favorable institutional contexts. By *'favorable institutions'* we mean institutions which both constrain social sustainability misconduct and enable social sustainability activities (Marano & Kostova, 2015; Saka-Helmhout & Geppert, 2011). Suppliers located in such an environment are more willing to accept help and are able to learn from MNEs. Since suppliers in home countries with unfavorable institutions for social sustainability practices may not be willing or able to learn from MNEs, MNEs should try to engage with them differently. Both formal and informal aspects of institutions constitute *'the rules of the game'*, but invoke different legitimacy motives for compliance. We investigated this interplay in a study of 381 suppliers located in eleven countries–both developed and emerging–which supply parts of their production to Western Europe and North America.

3.3. Hypotheses

Previous research has identified buyer-supplier collaboration as an effective means to implement sustainability in the supply chain (Klassen & Vachon, 2003; Tachizawa & Wong, 2014) as it reduces a supplier's opportunism and fosters mutual relationship-specific investments (Jiang, 2009). At Levi Strauss & Co., one of the world's largest apparel companies, all suppliers receive extensive product management training and a sustainability education, which aims to strengthen a supplier's ability to meet Levi Strauss & Co.'s Terms of Engagement (Galland & Jurewicz, 2010). In general, collaboration with suppliers signals the buyer's interest in the supplier operations, which creates a feeling of inclusivity and inter-dependence in the supplier firm (Christmann & Taylor, 2006). The training of a supplier's personnel, for example, is an investment made by the buyer to the supplier, which cannot be redeployed (Jiang, 2009). If suppliers perceive that the buyer is genuinely interested in improving the suppliers' working conditions, suppliers build trust and are convinced that their best interest lies in accepting directions and assistance from the buyer (Ho et al., 2017).

The active support from the buyer might be particularly important for the implementation of social sustainability, as suppliers in emerging countries often struggle to meet Western buyers' sustainability requirements as the supplier's sustainability capabilities might be less developed (Huq et al., 2016). Unlike environmental sustainability which is characterized by measurable metrics and well defined processes, emerging country suppliers might require more active support and training from the buyer for the implementation of social sustainability. Moreover, the link between social sustainability and economic performance metrics such as cost reduction and quality improvements might be harder to establish compared to environmental sustainability (see also Gimenez & Tachizawa, 2012; Wilhelm et al., 2016), which is why additional rewards in terms of guaranteed orders are more important for ensuring suppliers' compliance.

In summary, we argue that knowledge sharing and active support of the buyer are particularly important for ensuring a supplier's compliance with social sustainability practices. The above argument leads to our first hypothesis:

Hypothesis 1. *Buyer-supplier collaboration has a positive effect on a supplier's social compliance.*

Beyond their relationship with the MNE, suppliers are also embedded in their home market institutions, which influence their compliance with social sustainability practices. We expect a positive relationship between favorable home country institutions with regards to social sustainability, both formal and informal, and a supplier's social compliance. Regarding formal institutions, we posit that the presence and enforcement of effective labor laws presses organizations to invest in social sustainability activities. More specifically, we expect that strict laws and the enforcement of human rights and labor conditions, including wages, work hours, occupational safety, and freedom of association, increase a supplier's social sustainability compliance. Government regulations shape organizational behavior through direct imposition, force, or persuasion (DiMaggio & Powell, 1983). Suppliers may comply with social sustainability practices in order to prevent regulatory sanctions from the state (Campbell, 2007; Scott, 2008). Governments can also provide opportunities by actively setting an agenda which promotes social sustainability activities. Among others, these include mandating sustainability reporting, promoting the quality of sustainability reports respectively, and/or establishing regulations for third-party auditors (O'Rourke, 2004). In addition, governments can also highlight or reward specific companies that excel in sustainability reporting. For example, India is now on the forefront of sustainability laws, since the government has made sustainability reporting mandatory. The Indian state law has instituted a national sustainability award to recognize organizations that have made a positive impact on society through sustainable social initiatives (The Economic Times, 2017). Hence, formal state regulations have a coercive function, which constrains social sustainability misconduct, but may also encourage compliance with social sustainability practices at the supplier firm.

Hypothesis 2a. *Favorable formal institutions for social sustainability have a positive effect on a supplier's social compliance.*

In addition to formal state institutions, the informal institutional environment of the supplier affects social sustainability compliance. We argue that suppliers are more likely to comply if informal institutions at home create the proper set of incentives for such behavior. More specifically, we posit that local non-state stakeholders such as NGOs, the media, and consumers, as well as competitors in the home country can transmit social norms and instill values and attitudes towards social sustainability, which may affect a supplier's social sustainability compliance (e.g., Campbell, 2007; Matten & Moon, 2008; McDonnell & King, 2013). First, non-state stakeholders monitor and watch corporate sustainability behavior and exert pressure on local organizations in various ways, e.g., by organizing demonstrations against them, by appealing directly to the organizations themselves, by mobilizing media campaigns to bring public attention to certain alarming corporate practices, or by pressuring local governments to force organizations to improve their behaviors (Aguilera, Rupp, & Williams, 2007; Bansal, 2005; Doh & Guay, 2006). For example, local NGOs in emerging countries such as Cambodia or Myanmar increasingly cooperate with Western MNEs or NGOs to uncover labor rights abuses in the garment industry (Human Rights Watch, 2015). In China, we recently witnessed a series of social movements and worker strikes related to unfavorable working conditions in apparel and footwear production factories (The Economist, 2015). For instance, at Yue Yuen Industrial, the world's largest shoe factory in China, thousands of workers went on a strike when they learned that their employer had been shirking contributions for years, and they demanded that their social and pension insurance benefits be paid (BBC, 2014). Besides acting as *'watchdogs'* which oversee corporate (mis)conduct, local non-state stakeholders also play a decisive role in educating the supplier. By engaging in an active dialogue with suppliers, they aim to instill in them an *"enlightened self-interest"* (Campbell, 2007: 949) to better appreciate the concerns of other (non-business) actors. Thus, the attention to sustainability-related issues may engender a greater respect, which, in turn, may lead to more compliance in the supplier firms.

Second, by participating in industry associations, peer organizations may exert pressures on suppliers which motivate them to comply with social sustainability practices (Campbell, 2007). That is, corporate peer-to-peer pressure from industry associations motivates suppliers to mimic the behavior of other member firms to maintain competitive (Delmas & Toffel, 2004; Guler, Guillen, & MacPherson, 2002; Kollman & Prakash, 2002). The frequent and systematic interaction with member firms also helps suppliers to learn about the social sustainability behavior of others and to develop a more sophisticated understanding of social sustainability policies (Sanders & Tuschke, 2007). Overall, we posit that non-state stakeholders such as NGOs, the media, and consumers, as well as competitors at home can create a favorable climate which facilitates and enables a supplier to comply with social sustainability practices. The above arguments logically lead to our second hypothesis:

Hypothesis 2b. *Favorable informal institutions for social sustainability have a positive effect on a supplier's social compliance.*

We have argued that both buyer-supplier collaboration and institutional characteristics influence a supplier's compliance with social sustainability practices. In what follows, we illustrate how the interplay between both factors strengthens the effect of social sustainability compliance. More specifically, we claim that buyer-supplier collaboration is particularly effective if a supplier is embedded in favorable formal and informal institutions, which promote and enable sustainability activities. Conversely, if suppliers are located in an unfavorable institutional home environment regarding social sustainability, they will merely try to comply with minimum requirements and there is little incentive for them to go beyond mere *'window dressing'*. If suppliers are embedded in a favorable institutional home environment, then they are more willing to accept help from MNEs in the compliance process, because they aim to avoid (legal) sanctions, and are eager to conform to local norms and routines. Hence, collaboration with the buyer is perceived as an opportunity rather than a constraint to gain legitimacy at home.

Moreover, we argue that suppliers are more eager and capable to learn from the MNE when the informal institutions in the supplier home country are similarly favorable to those in the MNE home country. When informal institutions in the supplier's home country are similar to those in the MNE home country, MNE efforts to enhance a supplier's social sustainability capabilities and understanding are facilitated. A supplier's absorptive capacity, i.e., its ability to understand, learn, and apply external knowledge, depends on the cognitive frameworks in which it is embedded (Kostova, 1999; Kostova & Roth, 2002). As such, it is much easier for a supplier to learn a new practice when it is consistent with the prevalent social schemas and the cognitive structure in its home country (Markus & Zajonc, 1985). In the absence of a link to an existing cognitive structure, however, a new practice or policy is likely to go unnoticed or to be misunderstood (Sanders & Tuschke, 2007). Hence, when MNEs transfer knowledge and technology to enhance a supplier's capabilities and social sustainability understanding, a supplier's compliance with social sustainability practices increase if the supplier is open to assess the potential value of the practice (Lam, 2000; Sanders & Tuschke, 2007). In addition, similarly favorable goals and objectives, business philosophies, or management styles in buyer and supplier countries facilitate the translation of inter-organizational rules (Knoppen, Saenz, Johnston, 2011) and subsequently enhance inter-organizational learning (Lane & Lubatkin, 1998). Hence, if suppliers are embedded in a favorable informal environment, which promotes social sustainability practices that are consistent with those desired by the MNE, then collaboration leads to more social sustainability compliance at the supplier firms.

To sum up, we argue that a supplier's favorable formal and informal environment positively moderates the effect of buyer-supplier collaboration on a supplier's social compliance. More specifically, we posit that suppliers more willingly engage with MNEs to improve their social sustainability policy, if they are embedded in a favorable institutional environment at home. Moreover, suppliers are also more eager and capable of learning from MNEs and able to implement the acquired knowledge in practice, if they are embedded in favorable informal home institutions. Logically, we hypothesize the following:

Hypothesis 3a. *Favorable formal institutions for social sustainability positively moderate the effect of collaboration on a supplier's social compliance.*

Hypothesis 3b. Favorable informal institutions for social sustainability positively moderate the effect of collaboration on a supplier's social compliance.

3.4. Data and Methods

3.4.1. Research Context

We focus our analysis on a single industry sector in order to control for potential inter-industry differences in a supplier's compliance with social sustainability practices. Encompassing clothing and textiles, as well as apparel footwear and luxury goods, the apparel and footwear sector accounts for 6.5% of total manufacturing trade world-wide, and has increased by more than 12% over the last five years (World Trade Organization, 2014). With a share of more than 35% alone, China is the world's leading clothing exporter, followed by the European Union (26.2%), Bangladesh (5.1%), Vietnam (4.0%), and India (3.7%). The industry has come under special scrutiny since an accident in April 2013 killed 1,133 garment workers when the Rana Plaza factory in Dhaka collapsed. Fashion retailers have been acutely susceptible to pressure from activist campaigns and consumers which challenged companies' labor, environmental, or human rights record. Consequently, many MNEs began to consider suppliers' environmental and social conduct in their purchasing decisions. Although stakeholder and MNE pressures have led to increased attention of sustainability conduct in the apparel and footwear industry, compliance with social sustainability practices is not permanent nor stable, and thus leads to variations in suppliers' compliance rates (Frenkel, 2001; Huq et al., 2016).

3.4.2. Sample and Procedure

We obtained our data from multiple sources: first, we followed a two-stage process to collect our survey data on supplier level variables. We first gathered qualitative data from 15 Western European retailers affiliated with the Business Social Compliance Initiative (BSCI), and three NGOs. Interviews were held between December 2014 and April 2015. In most instances, the headquarters of these fashion retailers are located in the Netherlands and in Germany; four firms are situated in Belgium, Switzerland, Denmark, and Sweden, respectively. Semi-structured interviews with the sustainability manager of the respective MNEs were conducted either on site or over the phone. Please find the interview guide, and a list of the interviewees in section 5.1 of *Chapter 5*.

Based on the experience and feedback gained from these interviews, we designed a survey which was administered between May 2015 and April 2016 among respondents at various plants located in Asia Pacific, Latin America, and Europe to acquire cross-country data on social sustainability compliance. For the purpose of this research, we only included apparel and footwear manufacturing plants that export at least part of their production to North America or Western Europe in our sample. We selected those suppliers because the origins of labor rights and improved working conditions are associated with mounting pressures from North American and Western European MNEs (Jayasinghe, 2016). Before collecting our data, we pilot-tested the survey among eight clothing suppliers located in multiple countries to determine whether the respondents correctly understood and interpreted the survey questions. Subsequently, all surveys were translated to the local language by native speakers and then back-translated by a second translator as means to identifying potential terminology problems and to avoid any distortions in meaning across cultures (Hult, Ketchen, Griffith, & Tamer Cavusgil, 2008).

To improve the response rate we cooperated with local institutions such as trade and industry associations, as well as research agencies (Jayasinghe, 2016). We invited plant managers of various manufacturing firms, those that were most knowledgeable on the subject, to participate in this survey questionnaire. Manufacturing firms were selected based on (1) membership status in local industry and trade association, (2) personal connections, and/or (3) local phone directories. In most instances, surveys were filled out together with the respondent, either on site (80%) or over the phone (16%); only few cases requested email exchange of survey questionnaires (4%). In total, 582 firm-level observations of clothing and textile, as well as apparel, footwear and accessory manufacturing plants were collected. Amongst those, we discarded 89 surveys with missing data points: 80 surveys which did not match the criteria (i.e., no exporting firms, which supply to Western Europe or North America), and 32 surveys of which we did not collect data on the respective institutional profiles of the suppliers. Our final sample consisted of 381 usable firm-level survey responses, which were pooled across 11 countries from Asia Pacific, Latin America, and Europe. Our sample includes suppliers located in important apparel and footwear sourcing countries such as Bangladesh, Brazil, China, India, Indonesia, Malaysia, Pakistan, Portugal, Romania, Turkey, and Vietnam. Please find the supplier-level survey, as well as a complete overview of the data collection process at the supplier firms in section 5.2 of *Chapter 5*.

Second, following Kostova and Roth (2002), we administered a survey amongst 88 officers and researchers of local institutions to assess the favorability of informal institutions related to social sustainability in the home country of the suppliers. Because of their positions, all respondents were familiar with their respective home country informal institutions. Please find the institutional-level survey, as well as a complete overview of the data collection process at local institutions in section 5.3 of *Chapter 5*.

Third, we used the policy drivers of the Responsible Competitiveness Index (RCI) to assess the favorability of the formal institutions related to social sustainability in the supplier country. The RCI policy instruments measure the strength of public policies and 'soft power' for responsible business practices and include the following indicators: ratification of basic worker's rights, rigidity of employment index, private sector employment of women, signing and ratification of environmental treaties, stringency of environment regulation, CO2 emissions per billion dollars, and responsible tax environment. Indicators are developed by the Institute of Social and Ethical Accountability based on data from Amnesty International, the International Organization for Standardization, International Labor Organization, Transparency International, World Economic Forum, and the World Bank (for details, see Zadek and McGillivray, 2007).

3.4.3. Measures

Dependent Variable

Following Waddock and Graves (1997) and Marano and Kostova (2015), we used a summative index of key performance indicators (KPIs) to measure *social compliance*. KPIs provide a standardized way of determining whether or not firms are meeting their objectives and goals. Both suppliers and buyers monitor such indicators over time and adjust plans and programs to improve the KPIs in support of the firm's strategic goals. KPIs for social sustainability were adopted from both previous studies and insights gained from the qualitative interviews with sustainability managers of Western MNEs. The measurement scale consists of five nominal variables. First, we asked the respondents whether internal audits (i.e., self-assessments) have been conducted at this manufacturing plant, and we coded it as one if internal audits were conducted, and zero otherwise. Internal audits may detect and prevent fraud within the supplier firm, and monitor compliance with firm policy and government regulation (Aravind & Christmann, 2011). Second, managers were asked whether workers can discuss issues of interest with the factory management and elicit their feedback through either (a) regular monthly individual meetings, (b) free and independent worker assemblies (e.g., trade unions), or (c) worker education trainings. If issues of interests were discussed through either of the above channels, we coded it as one, and zero otherwise. Providing a channel to access employee voices is important for compliance, since it increases employee engagement, enables effective decision-making, and drives innovation (Boiral, 2007; Frenkel, 2001). Third, we asked respondents to name the person primarily responsible for social compliance at this plant and suggested the following categories: (a) factory manager/owner, (b) human resource manager, (c) quality manager, (d) social compliance manager, or (e) others. If respondents delegated responsibility to either a human resource manager, a quality manager, or a social compliance manager, we coded it as one, and zero otherwise.[11] Delegating responsibility for compliance and assigning authority to middle managers contributes to a firm's bottom-up evolution, which increases both employee empowerment and control functions within the firm (Frenkel, 2001; Huq et al., 2016). We also included two five-point Likert scale items. We asked the participants to respond to the following prompts ranging from "strongly

[11] In some instances, the responsibility for social compliance is delegated to "other" middle managers within the supplier firms, namely the supplier's production or sustainability manager. We coded these as one, too.

disagree" to "strongly agree": "We clearly document the social sustainability policy and procedures, and continuously update them" and "We integrate financial and social sustainability reporting to make more informed assessments on our plants overall performance." Both items were coded as one, if respondents "agreed" or "strongly agreed" to the statement, respectively, and zero otherwise. Well-written policies and procedures allow employees to clearly understand their roles and responsibilities within the firm (Boiral, 2011). Integrated reporting ensures alignment of social sustainability practices and a firm's corporate mission and its strategic goals, and essentially secures top management support (Boiral, 2011; Frenkel, 2001; Weaver, Trevino, & Cochran, 1999). We measure compliance with social sustainability practices as a summary index because it is a formative construct (Strike, Gao, & Bansal, 2006). Higher scores on the index of social sustainability mean that a supplier complies with a broader scope of social sustainability practices. A list of the key constructs used in this study can be found in the Appendix B of this chapter.

Independent Variables

Buyer-Supplier Collaboration. Our measure of buyer-supplier collaboration was adapted from Jiang (2009) and Kumar, Scheer, & Steenkamp (1995). Participants were asked to report their agreements with the following four statements (1 = "strongly disagree" to 5 = "strongly agree"): (1) "This customer works with us closely to implement the social sustainability policy (e.g., personal visits, training programs)," (2) "When we share our problems with this customer (e.g., material prices), we know that it will respond with understanding," and (3) "This customer allows open two-way dialogue on the social sustainability policy, so that set targets can be established jointly." The Cronbach's alpha for this scale is 0.75. This measure was standardized.

Favorability of Formal Institutions. Following previous work in this area (e.g., Marano & Kostova, 2015; Peng & Beamish, 2008), we measured the favorability of formal institutions by using the RCI.[12] Unfortunately, the RCI data is only available for 2007 (not 2015). As argued before (Peng & Beamish, 2008), however, this approach is appropriate because institutions generally change slowly and are relatively stable over

[12] The RCI did not rate one country included in our sample, namely Vietnam. In this case, we used the average RCI score for the available neighboring countries (Marano & Kostova, 2015). Vietnam's RCI score was calculated as the average score of Cambodia, and China (as the index does not include data for Vietnam's other neighboring country, Laos).

time (North, 1991). To check the time-invariability of this measure, and thus the robustness of our results, we substituted the RCI data with a more recent measure on formal institutions. We used the Employment Right Index (ERI) of the CIRI Human Rights Data published in 2011, a widely used data set (e.g., Brieger, Francoeur, Welzel, & Ben-Amar, 2017; Cingranelli & Richards, 2010; Rathert, 2016) that examines a range of human rights practices in over 200 countries based on data from the US State Department and Amnesty International. The ERI measures a government's respect for freedom and political rights, namely freedom of domestic and foreign movement, freedom of speech, freedom of assembly and association, workers' rights, electoral self-determination, and freedom of religion. When using the ERI data, our results remain the same as those reported in Table 3.3. Both measures are standardized for our analysis.

Favorability of Informal Institutions. Following Kostova and Roth (2002), we designed a survey to measure the favorability of informal institutions related to social sustainability in the supplier countries. We asked 88 local researchers and officers from local trade and industry associations to report their level of agreements with the following five statements (1 = "strongly disagree" to 5 = "strongly agree"): (1) "It is expected in this country that manufacturing companies would have a high social performance," (2) "There is a very strong message in manufacturing companies in this country that you can't stay in business nowadays if you do not adopt social policy," (3) "People in this country know a great deal about social sustainability," (4) "Social standards (e.g., SA8000, BSCI, WRAP) are widely used amongst manufacturing companies in this country," and (5) "People in this country care a great deal about social sustainability at their workplace." The Cronbach's alpha for this scale is 0.85. This measure was also standardized.

Control Variables

To account for other factors that could possibly affect social compliance, we included a number of control variables at both the firm and country level. Firstly, we controlled for the country of the supplier's most important buyer, thereby distinguishing between MNEs located in Western Europe and North America. Due to the different institutional structures and political legacies in Western Europe and North America, MNEs located in those geographical regions confront different stakeholder pressures and thus may respond differently to social sustainability requests in their global supply chains (Doh &

Guay, 2006). To control for the *Buyer Country of Origin*, we construct a dummy variable, which takes the value of one if the MNE is located in Western Europe, and zero if the buyer is located in North America. We also control for a supplier's *Dependence* since compliance pressure by MNEs and the possible adverse effects of non-compliance may affect a supplier's compliance with social sustainability practices. That is, when suppliers are dependent on MNEs, they may exhibit more compliance, because they feel obliged to do so. To illustrate the dependence of the supplier on the most important buyer, we asked the supplier to specify the percentage of total sales sold to this buyer (Noorderhaven, Nooteboom, & Berger, 1998). Furthermore, we account for *Perceived Buyer Dependence* since a higher dependence of this most important buyer on the respective supplier may be paired with more resource and financial support for supplier compliance (Ganesan, 1994). Using a five-point scale ranging from 1, "strongly disagree," to 5, "strongly agree," the supplier was asked to rate the following statements about its most important buyer: (1) "We are a major supplier to this customer in this market," (2) "If we discontinued supplying to this customer, this customer would have difficulty making up the sales volume in this market," and (3) "It is very costly for this customer to change to new suppliers in this market." The internal consistency of buyer dependence was good (α=0.78). We also controlled for the presence of *External Audits* (i.e., third party or MNE initiatives) conducted last year at the supplier firm, since we expect that external monitoring will improve compliance of the supplier (Christmann & Taylor, 2006). We constructed a dummy variable, which takes the value of one if external audits have been conducted in the previous year and zero otherwise. In addition, a supplier's *Export Experience* may have an effect on its compliance (Jiang, 2009). We used "years of doing export business" to control for this issue. Furthermore, since previous studies have shown that exporting has a positive effect on compliance, (Christmann & Taylor, 2006; Muller & Kolk, 2010) we accounted for a supplier's *Degree of Internationalization*, which is measured as the percentage of the firm's export profits to total profits. We also controlled for a supplier's *Profitability*, since wealthier firms may have more resources and capacities to invest in a comprehensive social sustainability agenda (Marano et al., 2017). We operationalized supplier profits as a perceived measure, which asks the respondents to rate the manufacturing plant's profitability on a scale from 1 to 5, compared to its main competitor in the market. Furthermore, we accounted for a supplier's *Size*, which is operationalized as the log of number of employees (Christmann

& Taylor, 2006). Previous studies have shown that larger suppliers are more likely to invest in social sustainability practices due to more resource availability and greater public scrutiny (e.g., Christmann & Taylor, 2006; Kennedy & Fiss, 2009; Marano & Kostova, 2015). Lastly, since previous studies have indicated that the overall level of corruption within a country may influence a firm's sustainability policy (e.g., Montiel, Husted, & Christmann, 2012), we used the World Governance Indicator's Control of Corruption data to account for a supplier's *Country Level of Corruption*. We would note that the RCI index we used to measure the favorability of formal institutions does not account for country level of corruption.

3.4.4. Construct Validity

We assessed convergent and discriminant validity of all latent variables in our model by subjecting them to a confirmatory factor analysis using LISREL. Considering the relatively small sample size, the measurement model fit indices of the supplier-level variables are very good ($\chi^2(8)=19.44$, $\rho<0.01$; goodness of fit index [GFI]=0.98; confirmatory fit index [CFI]=0.99; incremental fit index [IFI]=0.99; normed fit index [NFI]=0.98; root mean square error of approximation [RMSEA]=0.06) (Hair, Black, & Babin, & Anderson, 2010). The composite reliability of each supplier-level construct exceeds the 0.70 threshold (see Table 3.1), and the AVEs for all supplier-level constructs are 0.50 or higher.[13] Overall, each observed item relates strongly to its intended latent construct in support of convergent validity of all our latent variables.

Discriminant validity reflects the degree to which two theoretical constructs differ from one another. As we determined from the values in Table 1, the AVE of each construct is greater than the square of the construct's correlations with all other factors (Hair et al., 2010). We also ran a chi square difference test to compare the χ^2 value between a fixed (set the correlations between the constructs at 1.0) and an unfixed model (free correlations between the constructs) for buyer-supplier collaboration and perceived buyer dependence. Compared to the fixed models, the unfixed model showed a significantly lower χ^2 value ($\rho<0.00$), indicating evidence of discriminant validity (Koufteros, 1999; O'Leary-Kelly & Vokurka, 1998).

[13] We tested convergent validity of the favorability of informal institutions separately, since it is measured on the country-level. According to Hair et al. (2010), the measurement model fit indices of this construct is acceptable ($\chi^2(5)=11.31$, $\rho>0.01$; goodness of fit index [GFI]=0.95; confirmatory fit index [CFI]=0.97; incremental fit index [IFI]=0.97; normed fit index [NFI]=0.95; root mean square error of approximation [RMSEA]=0.12). The composite reliability and the AVE are 0.86 and 0.53, respectively.

Table 3.1 Construct Validity

Construct and Scale Items	Factor Loadings	AVE	Composite Reliability	Cronbach's Alpha	Squared Covariance
Buyer-Supplier Collaboration [a]		0.5	0.74	0.75	vs. Perceived Buyer Dependence: 0.24
1. Close Collaboration [e]	0.67 [e]				
2. Problem Sharing	0.69				
3. Two-Way Dialogue	0.75				
Favorability of Informal Institutions [bd]		0.53	0.86	0.85	
1. High Expectations [e]	0.65 [e]				
2. Strong Message	0.69				
3. Knowledge	0.76				
4. Social Standards	0.72				
5. People Care	0.82				
Perceived Buyer Dependence [c]		0.55	0.74	0.78	
1. Major Supplier [e]	0.72 [e]				
2. Make up Sales Volumes	0.85				
3. Costly to Change	0.65				

[a] Items retrieved from Jiang (2009) and Kumar et al. (1995)

[b] Items retrieved from Kostova and Roth (2002)

[c] Items retrieved from Noorderhaven et al. (1998)

[d] Survey data is collected from 88 officers of local industry and trade associations, and local researchers

[e] Item was fixed to 1 to set the scale

3.4.5. Common Method Variance

We used three methods to reduce the risk of common method variance (CMV). First and most importantly, we obtained information about the dependent variable (social compliance) and the two independent variables (the favorability of formal and informal institutions) from different data sources (Chang, van Witteloostuijn, & Eden, 2010). Second, all items included in the composite measure of the dependent variable were scattered throughout the survey to avoid the effects of consistent artifacts (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Third, for a subset of items, data on the dependent variable and some latent variables at the supplier-level were obtained from single respondents. For this subset, we assessed the possible presence of CMV by using both a Harman's one-factor test (Podsakoff et al., 2003; Steensma, Tihanyi, Lyles, & Dhanaraj, 2005) and a confirmatory factor analysis, in which all items were loaded on one common factor to examine the model fit (Korsgaard & Roberson, 1995; Mossholder, Bennett, Kemery, & Wesolowski, 1998). The factor analysis reveals the presence of multiple distinct factors with eigenvalues greater than 1.0, rather than a single factor, and the first factor did not account for a majority of the variance. This lack of a common factor is confirmed in a confirmatory factor analysis. A single-factor model does not fit the data well ($\chi^2(9)=224.16$, $\rho<0.00$; goodness of fit index [GFI]=0.84; confirmatory fit index [CFI]=0.8; root mean square error of approximation [RMSEA]=0.25) (Hair et al., 2010). While the results of these analyses do not preclude the possibility of CMV, they do suggest that it is not of great concern and thus is unlikely to confound the interpretations of our results.

3.5. Results

Table 3.2 presents the descriptive statistics and the correlation matrix. The correlation matrix indicates that social compliance has bivariate correlations of 0.36 with buyer-supplier collaboration, -0.04 with the favorability of formal institutions, and 0.09 with the favorability of informal institutions, all at acceptable levels for our analysis. Moreover, low correlations among our independent variables and small variance inflation factor (VIFs)–the mean VIFs in our full model (Model 7) is 1.52 which is well below the recommended threshold value of 10 (Kutner, Nachtsheim, & Neter, 2004)–suggest that multicollinearity is not an issue in our data.

Table 3.2. Means, Standard Deviations, and Correlations

Variables	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11	12
1. Social Compliance	3.42	1												
2. Buyer-Supplier Collaboration[a]	0	1	0.36											
3. Favorability of Formal Institutions[a]	0	1	-0.04	-0.02										
4. Favorability of Informal Institutions[a]	0	1	0.09	0.08	0.25									
5. Buyer Country of Origin[c]	0.62	0.49	0.00	-0.05	0.20	-0.13								
6. Dependence	32.05	24.41	-0.05	0.00	0.13	-0.17	0.02							
7. Perceived Buyer Dependence	3.09	0.85	0.32	0.39	-0.09	-0.01	-0.05	0.21						
8. Presence of External Audits[c]	0.76	0.43	0.18	0.07	-0.10	-0.04	-0.06	-0.11	0.04					
9. Export Experience	14.55	9.85	0.18	0.09*	0.21	-0.01	0.00	-0.02	0.10	0.11				
10. Degree of Internationalization	65.27	33.12	0.16	0.04	0.19	-0.19	0.04	0.43	0.21	0.15	0.08			
11. Profitability	3.15	0.71	0.32	0.35	-0.22	-0.01	-0.09	-0.07	0.35	0.12	0.08	-0.09		
12. Size[b]	6.06	1.70	0.43	0.14	-0.06	0.12	-0.15	-0.03	0.09	0.34	0.23	0.21	0.16	
13. Country Level Corruption	-0.30	0.47	0.26	-0.07	-0.35	-0.17	-0.15	-0.05	-0.03	0.19	-0.05	0.20	-0.02	0.63

n=381; [a]=standardized; [b]=log value;[c]=binary variable

We estimated OLS regression with cluster-robust standard errors. We clustered on the country-level since we expect that a supplier's compliance within each country may be correlated, i.e., the error terms are correlated within each country (but uncorrelated across countries).[14] Endogeneity under this empirical framework is not a major concern for our research due to two reasons: firstly, reverse causality from a supplier's social compliance to our independent variables (i.e., buyer-supplier collaboration, and the favorability of formal and informal institutions) is very unlikely, since compliance is an organizational response strategy, which is induced externally (Meyer & Rowan, 1977; Oliver, 1991). By using institutional theory, we argue that a supplier complies with social sustainability practices, because the supplier is embedded in a favorable institutional environment, which prescribes the adherence to social sustainability practices (DiMaggio & Powell, 1983; Scott, 2008). Secondly, by closely following the sustainable supply chain literature and empirical studies on institutions and sustainability, we controlled for numerous factors, which may potentially induce an omitted variable bias. In addition, we rely on the Ramsey-RESET test to mitigate concerns for model misspecification and omitted variable bias (Modi, Wiles, & Mishra, 2015; Ramsey, 1969). Results for our full model (Model 7) are insignificant, indicating that missing variables do not bias our results and conclusions (ρ=0.13). Table 3.3 represents the main results.

Model 1 represents the model with control variables only. Model 2, 3, and 4 report the main test of Hypothesis 1 and Hypotheses 2a and 2b, while Model 5 and 6 provide the main test of Hypotheses 3a and 3b. Model 7 constitutes the full model incorporating both interaction effects simultaneously. Hypothesis 1 predicts that buyer-supplier collaboration is positively related to social compliance. We found a positive and significant (β=0.26, ρ=0.02) effect of collaboration on a supplier's social compliance. In Model 5-7, this effect is also positive and significant, leading us to conclude that Hypothesis 1 is supported.

[14] Alternatively, since our dependent variable is a summative index of KPIs, we also estimated an ordinary logistic regression to check the robustness of our results. When using an ordinary logistic regression, our results remain qualitatively similar to the results reported in Table 3.3.

Table 3.3. OLS Regression Results with Cluster-Robust Standard Errors

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Buyer-Supplier Collaboration **(H1)**		0.26** (0.02)			0.26*** (0.01)	0.26** (0.01)	0.26*** (0.00)
Favorability of Formal Institutions **(H2a)**			0.07 (0.63)		0.08 (0.56)		0.05 (0.68)
Favorability of Informal Institutions **(H2b)**				0.12** (0.04)		0.13** (0.03)	0.12** (0.04)
Buyer-Supplier Collaboration* Favorability of Formal Institutions **(H3a)**					-0.10* (0.07)		-0.12** (0.02)
Buyer-Supplier Collaboration* Favorability of Informal Institutions **(H3b)**						0.07** (0.05)	0.09** (0.02)
Buyer Country of Origin	0.22** (0.05)	0.22* (0.06)	0.20** (0.04)	0.25** (0.02)	0.21* (0.06)	0.26** (0.03)	0.24** (0.02)
Dependence	-0.01 (0.35)	0.00 (0.39)	-0.01 (0.34)	0.00 (0.41)	-0.01 (0.35)	0.00 (0.48)	0.00 (0.45)
Perceived Buyer Dependence	0.33*** (0.00)	0.24*** (0.00)	0.34*** (0.00)	0.33*** (0.00)	0.22*** (0.01)	0.24*** (0.00)	0.21** (0.01)
Presence of External Audits	-0.01 (0.98)	0.00 (1.00)	0.01 (0.95)	0.02 (0.91)	0.02 (0.94)	0.04 (0.83)	0.05 (0.8)
Export Experience	0.01 (0.28)	0.01 (0.25)	0.01 (0.28)	0.01 (0.21)	0.01 (0.23)	0.01 (0.19)	0.01 (0.15)
Degree of Internationalization	0.00 (0.13)	0.00 (0.15)	0.00 (0.19)	0.00* (0.09)	0.00 (0.26)	0.00 (0.15)	0.00 (0.3)
Profitability	0.34** (0.02)	0.27** (0.02)	0.36*** (0.00)	0.36** (0.01)	0.26*** (0.01)	0.29*** (0.01)	0.27*** (0.01)
Size	0.23*** (0.00)	0.20** (0.01)	0.22*** (0.01)	0.19** (0.01)	0.18** (0.02)	0.16** (0.03)	0.15** (0.04)
Country Level of Corruption	0.18 (0.25)	0.29 (0.1)	0.26 (0.25)	0.30* (0.1)	0.36 (0.12)	0.43** (0.04)	0.47* (0.07)
Constant	-0.43 (0.35)	0.19 (0.39)	-0.44 (0.29)	-0.44 (0.34)	0.42 (0.24)	0.16 (0.42)	0.43 (0.23)
R^2	0.31	0.34	0.31	0.32	0.35	0.35	0.36

n=381
*ρ<0.10; **ρ<0.05; ***ρ<0.01 (p-values in parentheses)

Hypothesis 2a posits that favorable formal institutions in the supplier's home country are positively linked to supplier compliance. Contrary to our expectations, we found a positive but insignificant (β=0.07, ρ=0.63) effect of the favorability of formal institutions on a supplier's social compliance. This effect is also positive and insignificant in Model 5 and 7. Hence, we cannot support Hypothesis 2a. Hypothesis 2b states that favorable informal institutions in the supplier's home country are positively associated with a supplier's social compliance. As expected, we found a positive and significant (β=0.12, ρ=0.04) effect of the favorability of informal institutions on supplier compliance. This effect is also positive and significant in Model 6 and 7. We can thus support Hypothesis 2b.

Hypothesis 3a proposes that favorable formal institutions positively moderate the relationship between buyer-supplier collaboration and a supplier's social compliance. The effect of the interaction term is negative and significant in both Model 5 (β=-0.12, ρ=0.08) and in Model 7 (β=-0.01, ρ=0.02). We thus cannot support Hypothesis 3a. Figure 3.1 visualizes how the interaction effect between buyer-supplier collaboration and the favorability of formal institutions influences a supplier's compliance with social sustainability practices (Meyer et al., 2017). We specifically considered the margin of error with which the interaction is estimated and report the confidence intervals for the interaction effect over the relevant range of the explanatory variable. The outer lines represent the 95% confidence interval for the interaction line, which shows the marginal effect of buyer-supplier collaboration on compliance for all country scores of formal institutions. When both lines of the confidence interval are above and below the horizontal zero-line, the interaction is significant. In Figure 3.1 we can clearly see that buyer-supplier collaboration is only beneficial for a supplier's compliance when the supplier is located in countries with unfavorable formal institutions.

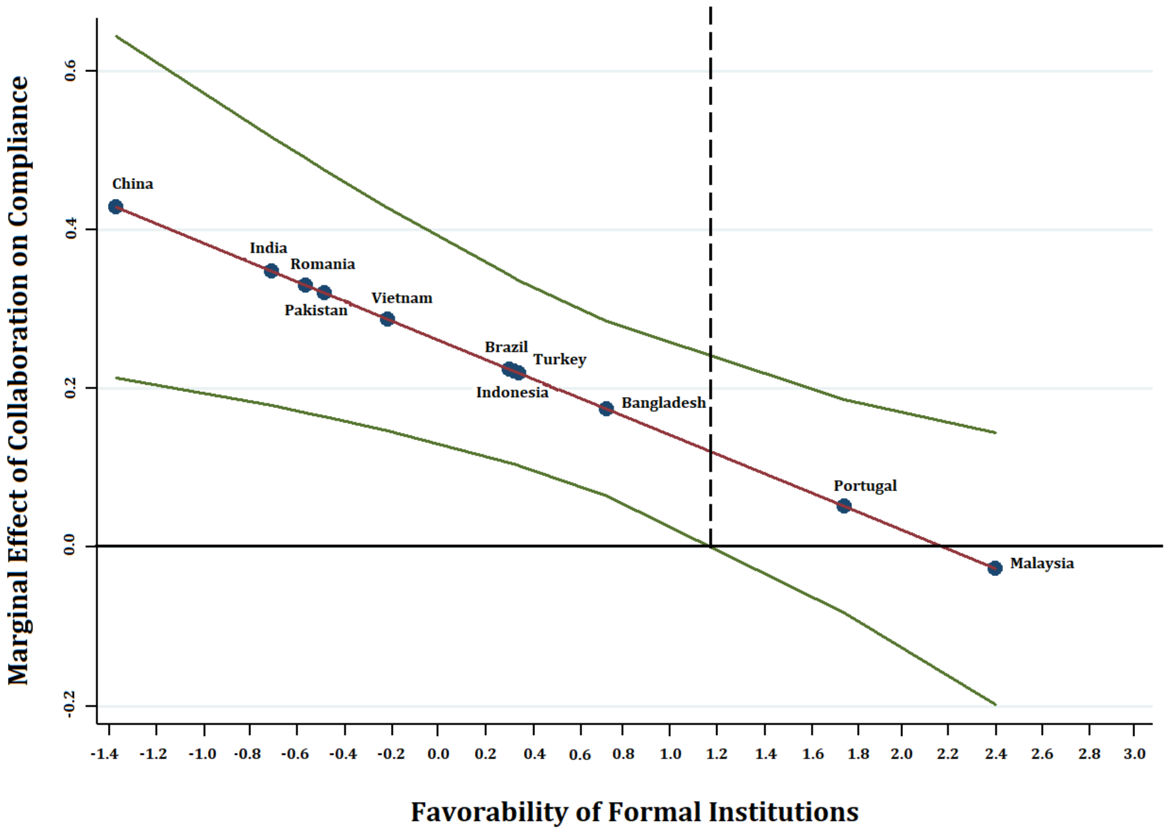

Figure 3.1. Marginsplot with Confidence Intervals (Formal Institutions)

Hypothesis 3b suggests that favorable informal institutions positively moderate the link between buyer-supplier collaboration and supplier compliance. We found a positive and significant effect for the interaction term in both Model 6 (β=0.07, ρ=0.05) and Model 7 (β=0.09, ρ=0.02). We can thus support Hypothesis 3b. Figure 3.2 visualizes how the interaction effect between buyer-supplier collaboration and favorable informal institutions influences a supplier's compliance with social sustainability practices. We can clearly see that the effect of collaboration on supplier compliance is conditional on the favorability of informal institutions in the supplier's home country: when informal institutions are favorable to social sustainability, then buyer-supplier collaboration stimulates supplier compliance. Contrariwise, when informal institutions are unfavorable, then collaboration has no effect on social compliance.

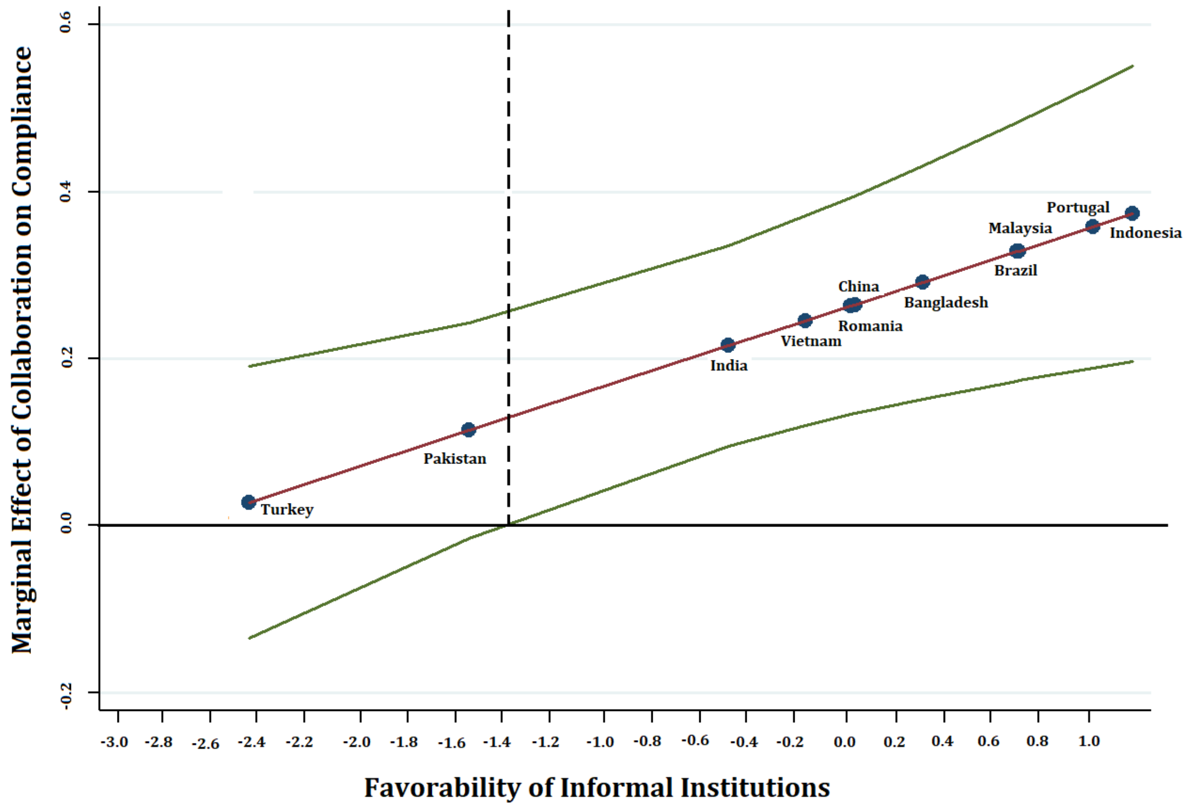

Figure 3.2. Marginsplot with Confidence Intervals (Informal Institutions)

3.6. Discussion

3.6.1. Theoretical Implications

This study empirically shows how buyer-supplier collaboration and institutional forces in the supplier's country influence a supplier's compliance with social sustainability practices. We argued that buyer-supplier collaboration is particularly effective for a supplier's social compliance as MNE support signals an MNE's genuine interest for a supplier's implementation of social sustainability practices, and enables a supplier to enhance its capabilities and understanding for social sustainability. Our results provided strong support for this relationship and confirm previous investigations that buyer-supplier collaboration in a supplier's compliance process leads to more social sustainability practices (Huq et al. 2016; Locke et al., 2007).

In addition, we hypothesized that favorable local institutional forces affect a supplier's social compliance. As hypothesized, we found that favorable informal institutions in the supplier home country transmit strong normative and mimetic pressures for social sustainability through non-state stakeholders. Hence, non-state stakeholders such as NGOs, the media, and consumers, as well as competitors successfully promote sustainability initiatives and constrain social misconduct which leads to more compliance at the supplier firm. Different from what we anticipated, however, our results suggested that the favorability of formal institutions–strong coercive pressures for social sustainability transmitted through governmental laws and regulations-has no direct effect on a supplier's social compliance. Since social sustainability is not easily observed or quantifiable (Wilhelm et al., 2016), it may be difficult for regulatory bodies to detect social misconduct and essentially exert direct pressure on suppliers to comply with social standards. Different from environmental standards that can more easily be coerced "from above" (e.g., Wu et al., 2014) social sustainability requires substantiated supportive societal values and cultural expectations within the respective country. It is thus important to understand how informal pressures and monitoring activities from non-state stakeholder such as NGOs and other *"horizontally positioned peer organizations or groupings"* (Boxenbaum & Jonsson, 2008: 80) can assist local governments in constraining social sustainability misconduct. Hence, our results contribute to the general discourse on institutional theory in supply chain management (Kauppi, 2013) as they suggest that the underlying institutional mechanisms for one domain (social sustainability) may be different from another (e.g., environmental sustainability).

Most importantly, we showed that the efficacy of buyer-supplier collaboration is dependent on the supplier country's institutional context. As anticipated, we found that a favorable informal institutional environment, which promotes social norms and cognitive skills for social sustainability, strengthens the effect of buyer-supplier collaboration on a supplier's social compliance, since it increases a supplier's willingness and capacity to accept directions and support from the buyer. Contrary to what we expected, however, our results suggested that buyer-supplier collaboration is not effective for a supplier's social compliance if the supplier is located in a country with strong formal favorable institutions. We provide the following explanation for this counter-intuitive finding: suppliers located in countries with well-developed formal institutions may be less receptive to a buyer's compliance requests, when they are already legally coerced to adopt a social policy. A buyer's attempt to reach out to its suppliers and collaborate with them may be perceived as unnecessary inference in the suppliers' business operations. Thus, suppliers may be less willing to work with the MNEs, when social standards are already externally enforced by governmental regulations. Conversely, in unfavorable formal institutional settings–where we found a positive effect–labor laws are weak and underdeveloped, and a supplier's compliance is mainly driven by the buyer's request. In these settings, suppliers are more willing and motivated to accept an MNE's support, because compliance can strengthen their competitive position in a market and increase their attractiveness for other Western investors.

3.6.2. Managerial Implications

Our study also holds practical implications for managers in MNEs who seek to improve the sustainability performance of their suppliers. MNEs should focus their collaborative activities with suppliers located in countries with favorable informal institutions for social sustainability by offering long-term contracts for suppliers and investing in regular trainings with them. In countries with strong formal institutions, MNEs can assume strong existing coercive pressures on suppliers for sustainability and should rather focus on other means to enhance their suppliers' sustainability performance further. However, even in countries with less favorable informal institutions for social sustainability, MNEs could try to exert *'institutional entrepreneurship'* (Battilana, Leca, & Boxembaum, 2009) and engage with local stakeholders. In other words, MNEs may improve the infrastructure of local NGOs, which would lead to more social sustainability attention within in the country (Muller, 2006). For example, in 2014 fashion retailer H&M and Solidaridad have formed a strategic alliance to achieve a more sustainable textile production chain. More recently, Solidaridad has launched a new pilot initiative in cotton together with H&M, which would ultimately promote sustainable cotton production in Ethiopia (Solidaridad Network, 2015). Thus, by moving away from dominant Western (social sustainability) logics, MNEs could tailor their (social sustainability) support for their supplier operations to local conditions, challenges, and priorities. That is, rather than imposing Western standards of social behavior on suppliers located in less favorable institutions, MNEs should try to understand

and reflect upon institutional differences, e.g., by engaging in a dialogue with their local stakeholders (Campbell, 2007).

3.6.3. Limitations and Future Research

We also note several limitations in our study. First, while we provided evidence that both relational and institutional factors in the supplier home country induce compliance, we do not directly assess the quality of compliance with social sustainability practices. Although our measure of compliance is based on *"specific facts that are either easy to navigate or few in numbers"* (Bansal & Kistruck, 2006: 178), which decreases the risk of social sustainability symbolism, future research should combine factual data with subjective measures to assess the quality of compliance. For example, future studies could collect subjective data from management and employees to understand the actual work routines and practices on the factory floor.

Second, our focus on footwear and apparel suppliers allows us to control for inter-industry differences in the antecedents of social sustainability compliance, but also prevents us from testing whether our predictions will hold in other industries and in other countries with different institutional environments. Future research may replicate this study to examine the robustness of our findings across other industries with similar peculiarities; that is, with strong global pressures for social sustainability, vertical integration in global supply chains and narrow profit margins and low skill manufacturing. Examples might be found in electronics or toys (e.g., Egels-Zanden, 2007; Jiang, 2009). Although we believe that our results could well extend to other similar industries, caution should be exercised when generalizing our findings to all industries.

Finally, in contrast to most empirical studies which collect data from large MNEs only (e.g., Hajmohammad & Vachon, 2017; Marano & Kostova, 2015), we used survey methodology to collect data at the supplier level. Although supplier level data helped us to understand whether and why global supplier firms comply with social sustainability practices, future research should collect dyadic data from both MNEs and suppliers. MNEs may have different rationales for outsourcing their production, and transferring social sustainability practices to their global supply chain partners (e.g., Tong, Lai, Zhu, Zhau, Chen, & Cheng, 2018). Although we tried to reduce such variation among MNEs by only selecting apparel and footwear firms which supply to MNEs located in Western Europe or North America, we acknowledge that the social sustainability agenda of some MNEs may be different from others, which potentially influences supplier compliance.

3.7. Conclusion

We conclude that the effect of buyer-supplier collaboration on a supplier's compliance is context-specific and does not suffice as a one-size-fits-it-all solution to all suppliers in an MNE's global production network. In particular, buyers should focus their collaborative activities to support the supplier's compliance process in institutional settings, which provide a favorable (normative and cultural-cognitive) climate, in which suppliers are willing and capable to absorb a buyer's knowledge for increased social compliance, but exert weak legal coercion in this regard. Hence, we can conclude that in countries like Bangladesh, in which workers are very aware of the importance of social sustainability, and the accompanying risks of potential non-compliance (e.g., increased media and NGO presence after the Rana Plaza building collapse in 2013), but where strict labor laws are still absent, buyer-supplier collaboration is beneficial for a supplier's compliance with social sustainability practices.

Appendix B

B1. List of Key Constructs

Variables	Key References
(a) Dependent Variable	
Social Sustainability Compliance[a]	
1. Who is primarily responsible for social compliance in this plant?[b] a) Factory manager/owner, b) Human Research (HR) manager, c) Quality manager, d) Social Compliance manager, e) Others	Frenkel (2001), Huq et al. (2016)
2. Have internal social audits (i.e. self-evaluation) been conducted at this manufacturing plant?[c]	Aravind and Christmann (2011)
3. Can workers discuss issues of interest with the factory management, and elicit their feedback? Is yes, through which channels:[d] a) Regular monthly individual meetings, b) Free and independent worker assemblies (e.g. trade unions), c) Worker education trainings, d) Others	Boiral (2007), Frenkel (2001)
4. We clearly document the social sustainability policy and procedures, and continuously update them.[e]	Boiral (2011)
5. We integrate financial and social sustainability reporting to make more informed assessments on our plants overall performance.[f]	Boiral (2011), Weaver et al. (1999)
(b) Independent Variables	
Buyer-Supplier Collaboration[g]	Jiang (2009), Scheer et al. (1995)
Please answer the following questions with regards to your manufacturing plant's most important customer (e.g. with regards to sales or reference), which is located in North America or Western Europe.	
1. This customer works with us closely to implement the social sustainability policy (e.g. personal visits, training programs).	
2. When we share our problems with this customer (e.g. material prices), we know that it will respond with understanding..	
3. This customer allows open two-way dialogue on the social sustainability policy, so that set targets can be established jointly.	
Informal Institutions[hj]	Kostova and Roth (2002)
1. It is expected in this country that manufacturing companies would have a high social performance.	
2. There is a very strong message in manufacturing companies in this country that you can't stay in business nowadays if you do not adopt social policy.	
3. People in this country know a great deal about social sustainability.	
4. Social standards (e.g. SA8000, BSCI, WRAP) are widely used amongst manufacturing companies in this country.	
5. People in this country care a great deal about social sustainability at their workplace.	

B1. List of Key Constructs (*continued*)

Variables	Key References
(c) Control Variables	
Supplier Dependence[i]	Ganesan (1994)
Please answer the following questions with regards to your manufacturing plant's most important customer (e.g. with regards to sales or reference), which is located in North America or Western Europe.	
1. We do not have a good alternative to this customer.	
2. It would be difficult for us to replace this customer.	
3. If our relationship was discontinued with this customer, we would have difficulty in making up the sales volume.	
External Audits	Christmann and Taylor (2006)
How many external social audits (i.e. 3rd party or customer initiative) have been conducted last year?	
Supplier Export Profits	Muller and Kolk (2010)
From this plant's total export profits, what percentage is sold to customers located in North America or Western Europe?	
Supplier Profits	Marano et al. (2017)
Compared to our competitors in the market, this manufacturing plant's total profit is ___ ?	
Supplier Size	Christmann and Taylor (2006)
How many workers does this manufacturing plant employ?	
Buyer Country	Doh and Guay (2006)
In which country is this customer's headquarter located?	

[a] Summative Index of Key Performance Indicators (KPIs)
[b] Binary variable: one if responsibility for social sustainability is delegated to b) HR manager, c) quality manager, or d) social compliance manager, and zero otherwise.
[c] Binary variable: one if yes, and zero otherwise
[d] Binary variable: we assigned a one if the following feedback channels were selected: a) regularly monthly individual meetings, b) free and independent
worker assemblies, or worker education training, and a zero otherwise.
[efghi] Measured on a 5-point Likert Scale, ranging from "strongly disagree" to "strongly agree"
[j] Survey data is collected from 88 officers of local industry and trade associations, and local researchers

Chapter 4: Substantive, Selective, Symbolic, and Deficient: CSR Implementation Strategies in Global Supply Chains[15]

Abstract. MNEs often use global standards to govern CSR in their global supply chains. CSR standards are, however, opaque and ambiguous, and become increasingly demanding over time which makes it difficult for suppliers to comply. This constitutes a challenge to MNEs since suppliers may not fully implement CSR practices. In this paper, we develop an integrative framework that combines the breadth and depth of CSR implementation, resulting in a new typology with four CSR implementation strategies. Using a unique sample of 437 firms suppling multinationals located in North America and Europe, we show that each of the proposed CSR implementation strategies is determined by a unique combination of MNE support and supplier motivation. A high quality of CSR implementation is only sustained if suppliers are inherently motived to comply with CSR request *and* receive MNE support in the compliance process. These findings have important implications for MNEs' governance relationships with their global supply chain partners.

Keywords: Practice and Standard Implementation, CSR, Global Supply Chains, Multinational Enterprises, Strategic Organizational Responses

[15] A previous version has been presented at the Annual Meeting of the Academy of Management in Atlanta (2017). We want to thank seminar participants at Ivey Business School and the University of Groningen for their valuable input.

4.1. Introduction

With increased globalization and international division of production, multinational enterprises (MNEs), as customers, face complex coordination challenges of their global supplier operations (Kim & Davis, 2017). To ensure supply chain compliance[16], MNEs commonly rely on (global) CSR standards such as the SA8000 or (supplier) codes of conducts (Christmann & Taylor, 2006; Jiang, 2009; King, Lenox, & Terlaak, 2005). CSR standards, however, only provide vague and ambiguous guidelines and performance requirements which leave room for interpretation (Behnam & MacLean, 2011; Fiss & Zajac, 2006). At the same time, the scope of CSR standards is rapidly expanding, representing the interests of multiple and diverse stakeholder groups which makes supplier compliance to CSR standards ever more complex (Christmann & Taylor, 2002; United Nations ESCAP, 2013). The nature of CSR standards—vague and ambiguous guidelines combined with extensive CSR requests—thus invites opportunities for suppliers to deviate from originally requested CSR practices and strategically implement CSR standards. This may constitute a challenge for MNEs since suppliers may not fully commit to CSR implementation and thus risk damaging MNE reputation (Van Tulder, Van Wijk, & Kolk, 2009).

Strategic CSR responses have been widely discussed in the literature (e.g., Kennedy & Fiss, 2009; Pache & Santos, 2013; Weaver, Trevino, & Cochran, 1999; Wickert, Vaccaro, & Cornelissen, 2015) but only a few studies have considered CSR strategies of global supplier firms (with a few notable exceptions: Bartley & Egels-Zanden, 2015; Christmann & Taylor, 2006; Egels-Zanden, 2007; Jamali, Lund-Thomsen, & Khara, 2015). This is surprising given that the *'loosely coupled and self-organized nature'* of global supply chains represent an ideal breeding ground for strategic responses (Kim & Davis, 2017; Wijen, 2014). Most commonly, empirical work in this domain has paid attention to one particular response strategy, namely symbolic implementation, or decoupling—a response that provides the appearance of compliance without doing so in practice (e.g., Bartley & Egels-Zanden, 2015; Christmann & Taylor, 2006; Egels-Zanden, 2007). When confronted with conflicting logics, i.e., cost reduction and profit maximization vs. CSR investments, symbolic implementation can help organizations to *'buffer'* internal routines and operations from external pressures

[16] For the purpose of this paper, we use compliance and substantive implementation interchangeably.

(Meyer & Rowan, 1977; Oliver, 1991). Thus, to assess a firm's decoupling behavior, it is important to understand whether external CSR requests match with a firm's willingness and motivation to change firm-internal operations. So far, however, scholars have only considered external factors such as MNE expectations and characteristics of the buyer-supplier relationship (e.g., Bartley & Egels-Zanden, 2015; Christmann & Taylor, 2006; Egels-Zanden, 2007), while having largely ignored supplier-internal factors to evaluate a supplier's CSR response strategy. The omission of either external or internal factors may result in incomplete conclusions about a supplier's decoupling behavior (Crilly, Zollo, & Hansen, 2012). This holds particularly true for the implementation of CSR standards in global supply chains since CSR practices are commonly implemented only upon MNE requests, and full, or substantive implementation often cannot be monitored externally (Wijen, 2014). Moreover, even if suppliers are inherently motivated to implement externally requested CSR standards, they may not have the resources or capabilities to comply with CSR standards which continuously increase in complexity and scope (Jiang, 2009; Simpson, Power, & Klassen, 2012). Hence, without MNE support, suppliers may merely select and *'cherry pick'* some CSR practices while continuing to violate others (Jamali et al., 2015). We aim at expanding this stream of research by investigating how the interplay between supplier motivation and MNE support influence its CSR implementation response.

We develop an integrative framework which combines the *breadth*—the aggregated count of CSR practices implemented in the supplier firm—and the *depth*—the integration of CSR practices in daily routines and activities—of CSR implementation. Breadth and depth of CSR implementation together describe the highest quality of CSR implementation of a firm. These two dimensions result in a new typology with four CSR implementation strategies: (1) deficient, (2) symbolic, (3) selective, and (4) substantive. We theorize that each of these CSR implementation strategies is determined by a unique combination of MNE support and supplier motivation. To test our hypothesized two-by-two framework and the antecedents of the associated four CSR implementation strategies, we collected cross-national survey data of 437 apparel and footwear global suppliers, which are located in both developed and emerging countries, and supply to MNEs located in North America and Western Europe.

Our study makes three distinct contributions: first, we contribute to the standard and practice diffusion literature by extending the commonly discussed depth of CSR implementation with the breadth of CSR implementation. Previous studies have typically considered standard implementation as a *'holistic'* challenge for firms, distinguishing between shallow (i.e., symbolic) and deep (i.e., substantive) implementation (e.g., Christmann & Taylor, 2006; King et al., 2005; Marano & Kostova, 2015). CSR standards are, however, increasingly demanding and complex, and compartmentalized along multiple (related) practices. Such underlying breadth of CSR implementation, ranging from narrow to wide, is pivotal to determine alternative organizational response strategies to symbolic/substantive implementation. By considering both breadth and depth of CSR implementation simultaneously, our typology reveals four distinct CSR implementation strategies.

Second, we extend the literature on CSR practice implementation in global supply chains by investigating supplier-internal mechanisms for decoupling. Only a few studies have empirically investigated antecedents of decoupling in global supplier firms, commonly focusing on external factors such as MNE expectations or monitoring mechanisms (e.g., Christmann & Taylor, 2006). Given that suppliers respond to CSR pressures from external stakeholders (King et al., 2005), and monitoring mechanisms often do not suffice to detect decoupling behavior (Plambeck & Taylor, 2012), supplier-internal factors such as motivation and willingness for change are crucial elements in order to determine a supplier's quality of CSR implementation. Hence, MNEs have to understand how motivated a supplier is to implement CSR practices.

Third, we contribute to institutional theory (Kostova & Roth, 2002; Meyer & Rowan, 1977; Oliver, 1991) by suggesting that the alignment between external and internal factors may, indeed, decrease symbolic implementation (i.e., decoupling), but does not suffice to guarantee substantive implementation. With ever increasingly complex and demanding standards, global suppliers, especially those located in emerging economies, require resources, capabilities, and understanding to implement a wide range of CSR practices (Simpson et al., 2012). Hence, next to supplier motivation, MNE support is necessary to implement CSR practices substantively.

4.2. Literature Review and Hypotheses

4.2.1. Implementation of CSR Standards in Global Supply Chains

Supply chains have developed into complex global networks of suppliers, customers, partners, and regulators (Kim & Davis, 2017). Although such inter-connected global distribution systems enable firms and countries to trade more effectively and efficiently, the involvement of more geographically dispersed parties also bears serious risks for violating global CSR practices (Hajmohammad & Vachon, 2016). In this paper, we define CSR as *"context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance"* (Aguines, 2011: 855). We specifically focus on the social dimension of CSR, which we associate with the care for workers' health and safety, as well as with their well-being in the global supply chain (Zorzini, Hendry, Huq, & Stevenson, 2015). Since MNEs[17] are increasingly held responsible for labor practices of their global supplier firms (Andersen & Skjoett-Larsen, 2009; Kim & Davis, 2017), they often *'force'* their suppliers to adopt CSR standards such as the SA8000 or the Global Reporting Initiative (GRI) or (supplier) codes of conducts (Christmann & Taylor, 2006; Jiang, 2009). For the purpose of this paper, we assume that MNEs exert CSR pressures on their supplier firms.

CSR standards formalize global (best) practices and provide standardized indicators for organizations to measure and report CSR performance. Formalization of standards is, however, often vague and ambiguous, and allows for different interpretations (Egels-Zanden & Hyllman, 2007; Fiss & Zajac, 2006). For example, while GRI specifies several conditions for compliance, it does acknowledge that full implementation with standard requirements may take time and only happen incrementally (Behnam & MacLean, 2011). Such an open-ended, non-specific time-frame for compliance allows organizations to procrastinate the full implementation of GRI principles almost indefinitely while still being listed as a participant on the GRI website. This creates leeway for suppliers to only half-heartedly integrate CSR standards in their day-to-day activities (Behnam & MacLean, 2011; Edelman, 1992). We refer to such variation in the integration of standards in daily routines and structures as *the depth of CSR implementation*, which can range from shallow to deep.

[17] Throughout this paper, we refer to Western MNEs located in North America or Western Europe. This is because Western MNEs are exerting strong CSR pressures on their supplier firms (Jayasinghe, 2016).

We specifically distinguish between the implementation and integration of CSR practices. While implementation specifies the formal adoption of CSR practices or indicators, integration refers to the usage of the adopted CSR practices in daily routines.

Moreover, CSR standards and guidelines are also becoming more complex and demanding over time which increases the compliance challenge for suppliers even further. For example, in the aftermath of the Rana Plaza building collapse, many suppliers are now requested to incorporate structural, electrical and fire-safety inspections in their corporate CSR policies. This represents a hurdle for many suppliers which often do not have the resources to consult or hire expert structural engineers or electricians (The Guardian, 2016). Consequently, global suppliers may not be able to attain to all practices formulated in CSR standards, and may thus only partially implement CSR standards. We consider variation in the amount of CSR practice implemented by supplier firms as *the breadth of CSR implementation*, ranging from narrow to broad.

4.2.2. A New Typology of CSR Implementation

Considering a CSR standard's ambiguity and opacity, as well as its increased complexity, we theorize that a firm's CSR implementation can be evaluated with regards to the two dimensions—*breadth* and *depth* of CSR practices deployed. We argue that the two dimensions are conceptually orthogonal to each other, and together define the boundaries of CSR implementation strategies. Given that compliance with CSR standards is time-consuming, resource intensive, costly, and benefits of CSR investments are often not immediately visible (e.g., Christmann & Taylor, 2006; Egels-Zanden 2007; Jamali et al., 2015; Jiang, 2009), suppliers may respond strategically by deviating from originally requested CSR practices (Oliver, 1991). Such sub-optimal CSR implementation of supplier firms could potentially damage a MNE's reputation (Van Tulder et al., 2009). It is therefore important for buying firms to understand under which conditions suppliers fully implement CSR requests. In summary, we posit that a supplier's overall CSR implementation strategy can be evaluated based on these two dimensions—*breadth* and *depth*—suggesting a simple typology as depicted in Figure 4.1 below.

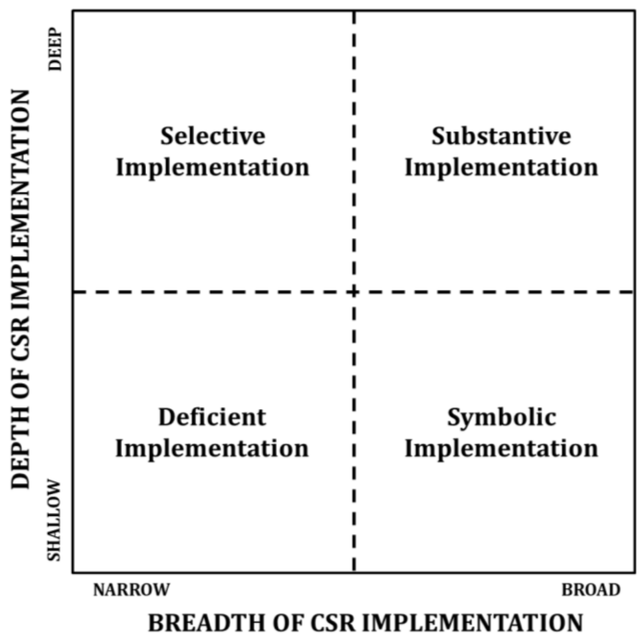

Figure 4.1. Typology of CSR Implementation

A *Deficient* CSR implementation strategy suggests that suppliers only implement a narrow array of CSR practices, and have done so in only a superficial manner. In contrast, firms that have a *Selective* CSR implementation strategy may still focus on only one or two CSR practices, but yet do so by fully integrating those CSR practices in daily routines. These organizations pick and choose to implement a subset of selected practices from the entire set of CSR requirements (e.g., Heese et al., 2017; Jamali et al., 2015; Pache & Santos, 2010, 2013; Wickert et al., 2015). Firms that follow a *Symbolic* CSR implementation strategy are integrating a very limited amount of CSR practices in daily activities, although the total number of CSR issues addressed and formally implemented is large (Christmann & Taylor, 2006; Egels-Zanden, 2007; Short & Toffel, 2010). In contrast, suppliers that are pursuing both a broad and a deep CSR implementation strategy, integrating numerous CSR practices in daily routines and structure, follow a *Substantive* CSR implementation strategy. As shown in Figure 4.1, substantive implementation attributes the highest quality of CSR implementation.

In summary, we argue that both *breadth* and *depth* of CSR implementation generate different CSR implementation strategies. The above argument leads to our first hypothesis:

Hypothesis 1. *There are four different CSR implementation strategies (i.e., substantive, deficient, symbolic, and selective), which can be classified along a supplier's breadth and depth of CSR implementation.*

4.2.3. Antecedents of Breadth and Depth of CSR Implementation

Assuming that suppliers can and do vary with regards to the CSR implementation strategies they choose to pursue (deficient, selective, symbolic, and substantive), the question then turns to what stimulates variation in both *breadth* and *depth* of CSR implementation, and subsequently determines a supplier's CSR response strategy. Below, we suggest two underlying mechanisms which drive breadth or depth of CSR implementation respectively, namely MNE support and supplier motivation.

Breadth of CSR Implementation. Given that CSR standards are becoming increasingly more complex and demanding, requiring an abundance of resources and capacities for compliance, as well as a decent understanding of external CSR expectations, we argue that a supplier's *breadth* of CSR implementation is largely determined by the practical support from its main Western customer. We define MNE support as the ability and capacity to influence an organization's decision-making, e.g., through active participation, dialogue, and/or involvement (Greenwood, 2007; Jiang, 2009; Kassinis & Vafeas, 2006). MNE support is particularly important for suppliers located in emerging economies which are generally characterized by market failures, a weak institutional infrastructure, and low overall CSR awareness (Distelhorst, Locke, Pal, & Samel, 2015; Huq, Chowdhury, & Klassen, 2016). Suppliers with a narrow CSR implementation strategy choose to implement only a few CSR practices instead of the full demanded set. Due to scarce resource and limited capacity, suppliers may choose to implement those practices, which present a greater sense of urgency from legitimate or powerful buyers (Heese et al., 2016; Pache & Santos, 2010, 2013). For example, a supplier might choose to focus on its child labor policy, specifically investing in this narrow stakeholder goal so as to more effectively or efficiently achieve some measure of positive outcomes with this particular stakeholder group (Jamali et al., 2015). The reason is that MNEs often emphasize CSR practices that improve their legitimacy vis-à-vis stakeholders (e.g., eliminating child labor) rather than those that shape long-term conditions for improvement (e.g., freedom of association) (Bartley & Egels-Zanden, 2015; Egels-Zanden & Hyllman, 2007). Others may choose to focus on those CSR practices, which are simply easier to implement than others. For example, audit results of the Business Social Compliance Initiative (BSCI), a business-driven initiative for firms committed to improving working conditions in their global supply chains, reveal that suppliers are more frequently non-compliant with some CSR practices such as working time or compensation, as opposed to others e.g., freedom of association or occupational health and safety (Hofstetter & Mueller, 2014).

By contrast, suppliers will invest in a wide range of CSR practices if MNEs stimulate the implementation of a comprehensive and organization-wide CSR policy. That is, if they signal a genuine interest in a supplier's compliance process which goes beyond mere risk mitigation concerns (e.g., reputation loss due to child labor incidents), then suppliers may be more open and capable to invest in a broad and diverse CSR policy. MNE support also facilitates MNE-supplier interaction, which raises a supplier's CSR awareness, and increases a supplier's resources and capabilities to implement a broad and comprehensive CSR policy (Pedersen, 2006). A supplier's choice of a narrow versus broad CSR implementation strategy can therefore be viewed as a reflection of how engaged a supplier's customer is in the compliance process, i.e., how much practical support the MNE grants in terms of resource availability, capacity building, and awareness raising. We thus hypothesize the following:

Hypothesis 2. *MNE support is associated with a wide breadth of CSR implementation, and will thus lead to either symbolic or substantive CSR implementation.*

Depth of CSR Implementation. Since the integration of CSR practices in daily routines and structures can hardly be observed externally, e.g., by the buying firms, we argue that a supplier's depth of CSR implementation depends largely on its commitment to conform to CSR standards (Greenwood, Jennings, & Hinings, 2015; Naveh & Marcus, 2005; Oliver, 1991). We define commitment as the willingness and motivation of organizations to use CSR practices as a *'catalyst for change'* in both behavior and decision-making (Naveh & Marcus, 2005). In other words, it is the conscious and deliberate choice of the supplier to improve the organization by implementing CSR practices in a deeper, more fundamental way. Supplier firms can, for example, use CSR practices to guide employee behavior, or attribute CSR investments to managerial decision-making. Such changes in organizational policies, however, are only maintained, if suppliers perceive that organizational benefits outweigh the costs in the long term (Kennedy & Fiss, 2009): suppliers with a shallow implementation strategy do not consider CSR practices as an integral part of their business strategy, and are resisting to embedding it in daily routines and activities (Egels-Zanden, 2007). Those suppliers may consider CSR integration as a constraint to efficient business (e.g., more bureaucracy and costs, and lack of employee commitment) rather than an opportunity to increase corporate value (Kennedy & Fiss, 2009). In contrast, a supplier with a deep CSR implementation strategy often considers the integration of CSR practices as an opportunity to increase productivity (Christmann & Taylor, 2006; Kennedy & Fiss, 2009), or to promote its organization's mission and commitment (Wickert et al., 2015). These suppliers anticipate positive gains from integrating CSR practices beyond external impetus, and are willing to tie CSR initiatives to the firm's organizational strategy (Muller & Kolk, 2010; Weaver et al., 1999).

In summary, we argue that if suppliers are inherently motivated to implement CSR practices in their daily routines, then supplier motivation increases the *depth* of CSR implementation. Thus, we hypothesize the following:

Hypothesis 3. *Supplier motivation is associated with a high depth of CSR implementation, and will thus lead to either selective or substantive CSR implementation.*

4.2.4. CSR Implementation Strategies: the Interplay between MNE Support and Supplier Motivation

While we have argued in hypothesis 2 that MNE support increases a supplier's *breadth* of CSR implementation, it may not suffice to achieve the highest quality of CSR implementation, namely: substantive implementation. We posit that without being inherently motivated to integrate CSR practices in daily routines and practices, a supplier's implementation would only be symbolic. This argument is in line with institutional theory which posits that firms wrestling with conflicting logics, i.e., maintaining legitimacy to core stakeholder groups (e.g., MNEs) and, at the same time, preserving firm-internal (efficiency) goals and objectives, may *decouple* formal policies from actual routines (Christmann & Taylor, 2006; Kostova & Roth, 2002). This is to signal conformity towards stakeholder pressure (e.g., CSR pressure) while *'buffering'* internal practices and routines (Meyer & Rowan, 1977; Oliver, 1991). For substantive CSR implementation, it is thus important that external stakeholder influences match firm-internal objectives and goals.

Previous studies have shown that MNE expectations and characteristics of the buyer-supplier relationship can stimulate substantive CSR implementation in global supply chains (Christmann & Taylor, 2006; Frenkel & Scott, 2002; Jiang, 2009; Lim & Phillips, 2008; Locke, Qin, & Brause, 2007). For example, Jiang (2009) shows that buyer–supplier relationships that are characterized by open and two-way dialogues are positively related to a supplier's compliance with codes of conduct. Lim and Phillips (2008) demonstrate, based on a study of Nike's Chinese and Vietnamese suppliers, that codes of conduct could improve workers' rights if buyer–supplier relationships were transformed from transactional to collaborative relationships. Christmann and Taylor (2006) find that Chinese suppliers are more likely to implement CSR standards substantively, if buying firms frequently monitor supplier compliance, and make relationship-specific investments in the supplier firms. While the above studies suggest that MNE support in the supplier's compliance process leads to substantive CSR implementation, they do not consider whether a supplier's CSR objectives align with the MNE's CSR agenda.

This is particular important for two reasons: first, the vague and ambiguous formulation of CSR standards allows for multiple interpretations which provides leeway for suppliers to symbolically implement CSR practices (Behnam & MacLean, 2011). Second, CSR standards are highly opaque which makes it very difficult for external stakeholders to observe the integration of CSR practices in daily routines (Wijen, 2014). Since MNEs cannot exert direct control on the supplier's internal processes, they have to trust the supplier's honesty and commitment for CSR. This yields opportunities for the supplier to deceive the MNEs by formally implementing CSR practices without integrating them in daily routines. For example, suppliers may have appointed a responsible person for compliance issues as requested by the MNE but would only give him/her authority to induce changes, if they truly believed in the (business) gains from practice implementation. Moreover, given that

MNEs show a genuine interest in the supplier by actively supporting its compliance process, the supplier may feel obliged to reciprocate the kind of treatment received from the MNE. The norm of reciprocity emphasizes the importance and propriety of returning favors, the feelings of obligations and expectancy of future value exchange, even when faced with uninvited favors (Blau, 2004). That is, one party provides some benefit of value to the other party and expects the other party to reciprocate in return (Griffith, Harvey, & Lusch, 2006; Narasimhan, Nair, Griffith, Arlbjørn, & Bendoly, 2009). Hence, even if suppliers are unwilling to integrate CSR practices in daily routines and business, they may formally implement a range of CSR practices to signal goodwill.

In sum, we thus posit that MNE involvement is a necessary but not a sufficient condition to implement a substantive CSR strategy. Without considering a supplier's motivation for CSR implementation, we cannot draw conclusions about whether or not CSR practices are implemented substantively. Based on the above theoretical arguments, we formulate the following hypothesis:

Hypothesis 4. *The combination of both MNE support <u>and</u> supplier motivation will lead to a supplier's substantive CSR implementation, as opposed to symbolic CSR implementation.*

While we have argued in hypothesis 3 that supplier motivation increases a supplier's *depth* of CSR implementation, it may also not suffice to achieve substantive implementation. We argue that this is because modern CSR standards have increased in scope and complexity over time (e.g., factories have to include structural, electrical, and fire-safety inspections in internal audits as a response to the Rana Plaza building collapse in 2013), which requires active support from MNEs. This holds especially true for small and medium-sized suppliers (i.e., emerging market suppliers), which do not have the resources, capabilities, and do not know how to implement a comprehensive CSR policy. Since CSR standards are often formulated in an abstract and universalistic manner, suppliers lack experience with new standards, as well as the capacities to implement them independently. For example, despite the willingness of suppliers to implement a comprehensive CSR policy in the Jalandhar football manufacturing cluster, Jamali et al. (2015) report that suppliers were (financially) unable to implement a wide range of CSR practices, because global buyers were not committed to helping them. While suppliers were able to eradicate, and selectively implemented some labor practices (i.e., child labor), they continued to practice other labor right abuses. Thus, MNEs have to give explanations and provide directions about CSR requirements but should also provide active support in terms of resource allocations and capability building at the supplier firms. Hence, even when external stakeholder requests (e.g., CSR pressure) and firm-internal objectives and goals (i.e., supplier motivation) are aligned, it does not necessarily mean that suppliers implement CSR practices substantively. Thus, we posit that supplier motivation is a necessary but not a sufficient condition to implement a substantive CSR strategy. We formulate the following hypothesis:

Hypothesis 5. *The combination of both supplier motivation and MNE support will lead to a supplier's substantive CSR implementation, as opposed to selective CSR implementation.*

4.3 Data and Method

4.3.1. Research Context

We focus on the implementation of CSR practices in global supply chains. CSR practices and standards are in a stage of pre- and semi-institutionalization, during which there is still a lack of consensus on the value of the organizational practice (Abrahamson & Fairchild, 1999; Tolbert & Zucker, 1996). This provides an ideal research setting for our study, since we are able to observe heterogeneity in the implementation of practices that are not yet permanent and stable (Abrahamson & Fairchild, 1999). Since CSR practices have not become an accepted structure with historic continuity, and are often implemented to satisfy MNE needs, we can expect to find sufficient heterogeneity in a supplier's implementation responses to CSR pressures.

We focus our analysis on a single industry sector in order to control for potential inter-industry differences in a supplier strategic CSR responses. Encompassing clothing and textiles, as well as apparel footwear and luxury goods, the apparel and footwear sector accounts for 6.5 percent of total manufacturing trade world-wide, and has increased by more than 12 percent between 2009 and 2014 (World Trade Organization, 2014). With a share of more than 35 percent alone, China is world's leading clothing exporter, followed by the European Union (26.2 percent), Bangladesh (5.1 percent), Vietnam (4.0 percent), and India (3.7 percent). The industry has come under special scrutiny since an accident in April 2013 that killed 1,133 garment workers when a factory in Dhaka (Bangladesh) collapsed. Fashion retailers have been acutely susceptible to pressure from activist campaigns and consumers which challenged companies' labor, environmental or human rights record. Consequently, many MNEs started incorporating suppliers' environmental and social conduct in their purchasing decisions. Stakeholder and MNE pressures have led to a tremendous growth in the CSR standards and certifications in the apparel and footwear (SAAS, 2016), but the overall quality of CSR implementation is questionable. This becomes evident since high-profile scandals still happen despite the implementation of CSR standards (Clean Clothes Campaign, 2013).

4.3.2. Sample and Procedure

We followed a two-stage process to collect our data. By cooperating with the Business Social Compliance Initiative (BSCI), a leading business-driven initiative supporting fashion retailers and brands to improve working conditions in supplying factories worldwide, we first gathered qualitative data from 15 Western European retailers affiliated to BSCI and three NGOs. Interviews were held between December 2014 and April 2015. In most instances, the headquarters of these fashion retailers are located in the Netherlands and in Germany; four firms are situated in Belgium, Switzerland, Denmark and Sweden. Semi-structured interviews with the CSR manager of the respective MNEs were conducted either on site or over the phone, depending on the availability of the interviewee. The interview guide, a list of the interviewees, and a summary of each interview can be found in section 5.1 of *Chapter 5*.

Based on the experience and feedback gained from these interviews, we designed a survey which was administered between May 2015 and April 2016 among respondents at various plants located in Asia Pacific, Latin America, and Europe to acquire cross-country data on CSR implementation. For the purpose of this research, we only included apparel and footwear manufacturing plants in our sample that export at least part of their production to North America or Western Europe. We select those suppliers because the origins of labor rights and improved working conditions are associated with mounting pressures from North American and Western European MNEs (Jayasinghe, 2016). Before collecting our data, we pilot-tested the survey among eight clothing suppliers located in multiple countries, to determine whether the respondents correctly understand and interpret the survey questions. Subsequently, all surveys were translated to the local language by native speakers and then back-translated by a second translator as means of identifying potential terminology problems, and to avoid any distortions in meaning across cultures (Hult, Ketchen, Griffith, & Cavusgil, 2008).

To improve the response rate, we cooperated with local institutions such as trade and industry associations, as well as research agencies (Jayasinghe, 2016). We invited plant managers of various manufacturing firms—that were most knowledgeable on the subject—to participate in this survey questionnaire. Manufacturing firms were selected based on (1) membership status in local industry and trade association, (2) personal connections, and/or (3) local phone directories. In most instances, surveys were filled out together with the respondent, either on site (79 %) or over the phone (14 %); only few cases requested email exchange of survey questionnaires (7 %). In total, 598 firm-level observations of clothing and textile, as well as apparel footwear and accessory manufacturing plants were collected. Due to missing data and double entries, the final sample consisted of 437 usable firm-level survey responses, which were pooled across 21 countries from South Asia (22 %), East Asia (49 %), Latin America (5 %), Eastern Europe (13 %) and Western Europe (11 %). Please find the supplier-level survey, as well as a complete overview of the data collection process at the supplier firms in section 5.2 of *Chapter 5*.

4.3.3. Measures

Dependent variables

We measured CSR implementation strategies with two variables: the *Depth of Implementation* and *the Breadth of Implementation*. The depth of CSR implementation was measured with a scale adopted from Kostova and Roth (2002). The measure asked respondents "How would you assess the level of social sustainability implementation at your location, i.e., has a social policy actually been put in practice?" for the following items: (1) the social sustainability policy as a whole, (2) leadership (e.g., managers actively support social compliance initiatives), (3) documentation (e.g., formal reporting of factory accidents and sickness rates), (4) people (e.g., employee suggestions are taken seriously), and (5) process management (e.g., social sustainability policy is on official agenda of regular factory meetings). The internal reliability was very good (Cronbach's α=0.87).

We follow the convention established by Waddock and Graves (1997) and Marano and Kostova (2015) and measured the breadth of CSR implementation as a summary index of key performance indicators (KPIs) of CSR implementation. KPIs provide a standardized way of determining whether or not firms are meeting their objectives and goals. Both managers and key stakeholders (in our case: MNEs) monitor such indicators over time and adjust plans and programs to improve the KPIs in support of the firm's strategic goals. KPIs for CSR implementation were adopted from both previous studies and insights gained from the qualitative interviews with CSR managers of Western MNEs. The measurement scale consists of five nominal variables. First, we asked the respondents whether internal audits (i.e., self-assessments) have been conducted at this manufacturing plant, and we coded it as one if internal audits were conducted, and zero otherwise. Internal audits may detect and prevent fraud within the supplier firm, and monitor compliance with firm policy and government regulation (Aravind & Christmann, 2011). Second, managers were asked whether workers can discuss issues of interest with the factory management and elicit their feedback through either (a) regular monthly individual meetings, (b) free and independent worker assemblies (e.g., trade unions), or (c) worker education trainings. If issues of interests were discussed through either of the above channels, we coded it as one, and zero otherwise. Providing a channel to access employee voices is important for compliance, since it increases employee engagement, enables effective decision-making, and drives innovation (Boiral, 2007; Frenkel, 2001). Third, we asked respondents to name the person primarily responsible for social compliance at this plant and suggested the following categories: (a) factory manager/owner, (b) human resource manager, (c) quality manager, (d) social compliance manager, or (e) others. If respondents delegated responsibility to either a human resource manager, a quality manager, or a social compliance manager, we coded it as one, and zero otherwise. Delegating responsibility for compliance and assigning authority to middle managers contributes to a firm's bottom-up evolution, which increases both employee empowerment and control functions within the firm (Frenkel, 2001; Huq et al., 2016). We also included two five-point Likert scale items.

We asked the participants to respond to the following prompts ranging from “strongly disagree” to “strongly agree”: “We clearly document the social sustainability policy and procedures, and continuously update them” and “We integrate financial and social sustainability reporting to make more informed assessments on our plants overall performance.” Both items were coded as one, if respondents “agreed” or “strongly agreed” to the statement, respectively, and zero otherwise. Well-written policies and procedures allow employees to clearly understand their roles and responsibilities within the firm (Boiral, 2011). Integrated reporting ensures alignment of social sustainability practices and a firm’s corporate mission and its strategic goals, and essentially secures top management support (Frenkel, 2001). We measured the breadth of CSR implementation as a summary index because it is a formative construct (Strike, Gao, & Bansal, 2006). Figure 4.2 shows which CSR practices are most commonly implemented among suppliers. We can see that Worker’s Voice is the CSR practice most commonly implemented among suppliers, while integrated reporting is least implemented. The prevalent implementation of Worker’s Voice seems surprising, but can be explained by the increased attention of Western stakeholders (e.g., NGOS, media) to effective grievance mechanisms and employee involvement in the CSR policy. Moreover, more than three fourth of the supplier firms claimed that they have implemented three or more CSR practices.

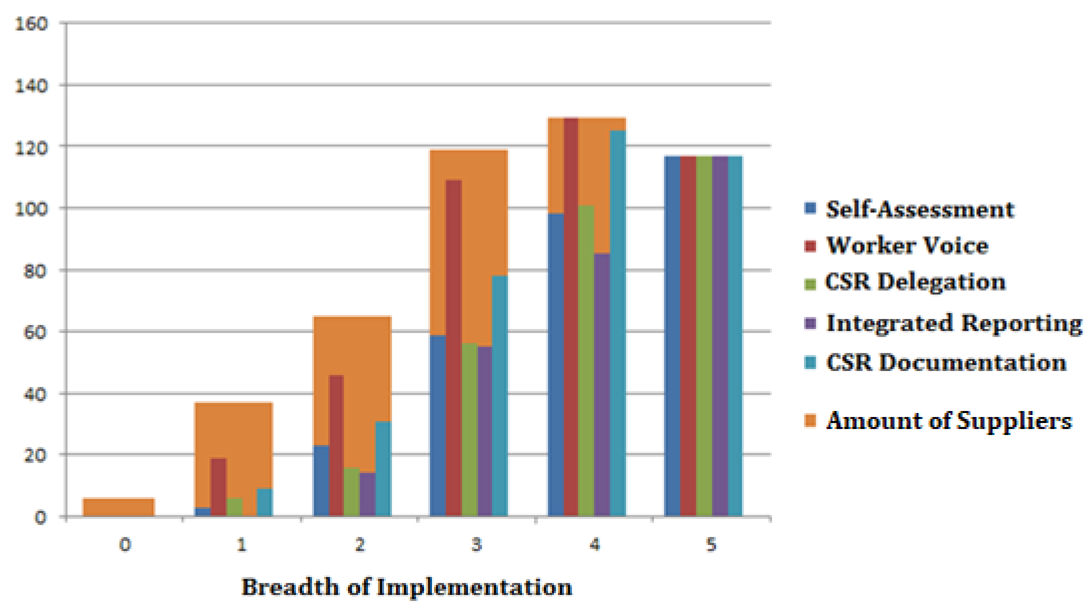

Figure 4.2. Variation in the Breadth of CSR Implementation

Figure 4.3 shows a visual representation of both breadth and depth of CSR implementation. We can clearly see that there is variation in the depth of implementation for all values of breadth of implementation.

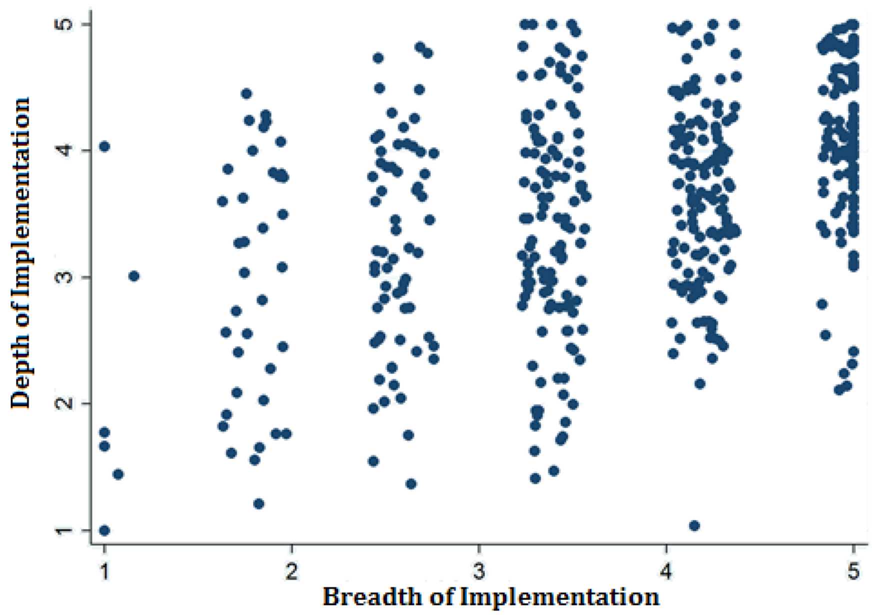

Figure 4.3. Scatterplot: Breadth and Depth of Implementation

Independent variables

Our measure of a supplier's *Motivation* was developed from recent case study findings (e.g., Huq, Stevenson, & Zorzini, 2014) and empirical research on practice implementation (Kennedy & Fiss, 2009). Using a five-point scale ranging from 1, "strongly disagree", to 5, "strongly agree", managers were asked to respond to the following items: (1) "Social sustainability can lead to economic benefits (e.g., lower sickness rate or worker absence).", (2) "Investments in social sustainability can give us a competitive advantage over other factories in the market.", and (3) "We implement a social sustainability policy to manage and report our social impact on individual workers.". The internal reliability of this scale was good (α=0.7).

We use a dichotomous variable indicating *MNE Support*, and assign a one if suppliers have received practical support in either of the following areas, and a zero otherwise: (1) Management and/or Human Resource (HR) systems, (2) training of workers and management on labor practices and working conditions, (3) training of workers and management on product quality and/or design, or (4) communication between management and workers. Our measure of MNE Support encompasses best practices identified by global social compliance programs such as the BSCI, the Ethical Trading Initiative (ETI), and Social Accountability International (SAI) on how buyers can improve CSR implementation in their supplier firms.

Control variables

To account for other factors that could possibly affect suppliers' CSR implementation strategies, we included a number of control variables. Firstly, following Ganesan (1994), we accounted for the power balance and dependency in the MNE-supplier relationship. We controlled for a supplier's *Dependence* since compliance pressure by MNEs and the possible adverse effects of non-compliance may affect a supplier's response to CSR practices. That is, when suppliers are dependent on MNEs, they may exhibit more compliance, because they feel obliged to do so (Christmann & Taylor, 2006). Following Ganesan (1994), we asked the supplier to rate the following statements on a five-point scale ranging from 1, "strongly disagree" to 5, "strongly agree": (1) "This customer is crucial to our future performance," (2) "We do not have a good alternative to this customer," (3) "It would be difficult for us to replace this customer", and (4) "If our relationship was discontinued with this customer, we would have difficulty in making up the sales volume". The internal consistency of supplier dependence (α=0.84) was high. We also controlled for *Perceived MNE Dependence* since a higher dependence of MNEs on the supplier may be paired with more resource and financial support for supplier compliance, and thus with a higher quality of CSR implementation. Using a five-point scale ranging from 1, "strongly disagree," to 5, "strongly agree," the supplier was asked to rate the following statements about its most important buyer: (1) "We are a major supplier to this customer in this market," (2) "If we discontinued supplying to this customer, this customer would have difficulty making up the sales volume in this market," (3) "It is very costly for this customer to change to new suppliers in this market", and "This customer will perform poorly if we do not perform well (e.g., lost sales, product recalls)." The internal consistency of Perceived MNE dependence (α=0.81) was good. We also controlled for the *Number of External Audits* (i.e., third party or

MNE initiatives) conducted last year at the supplier firm, since we expected that increased monitoring may affect the implementation patterns at the supplier firms (Christmann & Taylor, 2006). In addition, previous studies have shown that export activities have a positive effect on CSR practice implementation (Muller & Kolk, 2010). Hence, we controlled for the supplier's *Degree of Internationalization*, which is measured as the percentage of the firm's total export profits compared to total profits. We also controlled for *Age* since inertia and path dependence in older firms may inhibit CSR implementation (Aravind & Christmann, 2011; Jayasinghe, 2016). Age was operationalized as the log of the number of years since the supplier's incorporation date. Moreover, we controlled for *Size*, which was operationalized as the log of number of employees (Christmann & Taylor, 2006). Previous studies have shown that larger suppliers are more likely to invest in CSR implementation due to more resource availability and greater public scrutiny (e.g., Kennedy & Fiss, 2009; Marano & Kostova, 2015). Lastly, several studies have noted that institutional embeddedness affect the quality of CSR implementation (Kostova & Roth, 2002; Marano & Kostova, 2015). Since some countries in our sample are represented by only one or two supplier firms, it is insufficient to include fixed effects for all countries in our analysis. Thus, following the World Bank grouping, we used *Regional Dummies* to account for heterogeneity across regions (South Asia, East Asia, Latin and South America, Eastern Europe, and Western Europe). To assess validity of the measure, we also used fixed effects for all countries that are home to at least five supplier firms. We did not find any significant difference in our results. Since the use of country fixed effects reduces our sample size, we chose to include regional fixed effects.

4.3.4. Validity, Reliability, and Common Method Variance

We assessed convergent and discriminant validity of all latent variables in our model by subjecting them to a confirmatory factor analysis using LISREL (please see Table 4.1). Considering the relatively small sample size, the measurement model fit indices of the supplier-level variables are very good ($\chi^2(84)=290.73$, $\rho<0.00$; goodness of fit index [GFI]=0.94; confirmatory fit index [CFI]=0.96; incremental fit index [IFI]=0.96; normed fit index [NFI]=0.94; root mean square error of approximation [RMSEA]=0.08) (Hair, Black, Babin & Anderson, 2010).

Table 4.1. Construct Validity

Construct and Scale Items	Factor Loadings	AVE	Composite Reliability	Cronbach's Alpha	Squared Covariance
Motivation		0.46	0.66	0.7	
1. Economic Benefits	0.69				vs. Dependence 0.06
2. Competitive Edge	0.66				vs. Perceived MNE Dependence 0.14
3. Social Impact	0.65				
Dependence		0.58	0.87	0.84	vs. Motivation 0.06
1. Future Performance	0.61				vs. Perceived MNE Dependence 0.17
2. Good Alternative	0.76				
3. Replace Customer	0.81				
4. Make Up Sales Volume	0.83				
Perceived MNE Dependence					
1. Major Supplier	0.74	0.53	0.83	0.81	vs. Motivation 0.14
2. Make Up Sales Volume	0.82				vs. Dependence 0.17
3. Costly to Change	0.66				
4. Perform Poorly	0.68				

As a minimum requirement, the estimates of the factor loadings should be higher than 0.6 to support convergent validity (Hair et al., 2010). Although the AVE values of supplier motivation is below the threshold of 0.5, convergent validity is established because all factor loadings are higher than 0.6. Moreover, all constructs are reliable and meet the threshold of 0.6 for both construct reliability values and Cronbach's Alpha. Furthermore, we checked for internal reliability by using a sub-sample of 78 second respondents. We did not find any issues with internal reliability, i.e., the Intraclass Correlation (ICC) is well above the general threshold of 0.6 (ICC = 0.78) (Shrout & Fleiss, 1979).

To control for common method variance, we adopted measures to reduce social desirability bias ex ante (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). First and most importantly, our dependent variable—the breadth of implementation—is constructed as a composite measure of survey items that are factual and objective rather than perceptual and subjective (Podsakoff et al., 2003). For example, we asked respondents whether internal audits (i.e., self-assessments) were conducted rather than asking them how useful they perceive internal audits for implementing a CSR policy. Moreover, all items included the composite measure of the dependent variable were scattered throughout the survey to avoid the effects of constant artifacts (Salancik & Pfeffer, 1977). Secondly, we guaranteed anonymity to respondents and reduced evaluation apprehension by assuring respondents that there was no right or wrong answer. Furthermore, to avoid that respondents misunderstand the survey questions, we avoided vague concepts, and kept questions simple and precise. We also decomposed questions with more than one possible interpretation to simpler, more focused questions, and provided sufficient examples for illustration purposes.

4.3.5. Analysis

We use three different methods to test our hypotheses: first, to construct our four types of CSR implementation strategies associated with the two-by-two framework, we use K-means clustering for determining group identification (Kostova & Roth, 2002). Second, we use OLS regression to determine the effect of MNE support and supplier motivation on both breadth and depth of CSR implementation. Third, we performed multi-nominal logit regression analysis to compare MNE support and supplier motivation for each type of CSR implementation. The multi-nominal logit allows the independent variables to affect different probabilities and odds of choosing one alternative relative to the other. We use both symbolic and selective implementation respectively as the basis for comparison

The correlation matrix and the descriptive statistics for the variables are presented in Table 4.2. Low correlations among our independent variables and small variance inflation factor (VIFs) – the mean VIFs in our models is 2.06 which is well below the recommended threshold value of 10 (Kutner, Nachtsheim, & Neter, 2004) – suggest that multicollinearity is not an issue in our data.

Table 4.2. Means, Standard Deviations, and Correlations

Variables	Mean	s.d.	1	2	3	4	5	6	7	8	9
1. Breadth of Implementation	3.76	1.02									
2. Depth of Implementation	3.62	0.85	0.43								
3. Motivation	4.00	0.65	0.31	0.48							
4. MNE Support[b]	0.51	0.50	0.39	0.08	0.09						
5. Dependence	3.55	0.86	0.33	0.25	0.20	0.32					
6. Perceived MNE Dependence	3.24	0.83	0.33	0.43	0.31	0.17	0.33				
7. Nr. External Audits	3.31	4.44	0.34	0.26	0.15	0.23	0.30	0.26			
8. Degree of Internationalization	65.19	33.02	0.14	0.16	0.04	0.18	0.26	0.24	0.06		
9. Age[a]	2.75	0.75	0.14	0.19	0.07	0.03	0.00	0.17	0.08	-0.12	
10. Size[a]	5.96	1.72	0.38	0.03	-0.09	0.40	0.19	0.05	0.29	0.17	0.12

n=437;[a]=log value [b]=binary variable

4.4. Results

Our analysis revealed four strategic CSR responses, which can be viewed as reflecting different qualities of CSR implementation. Table 4.3 shows the mean scores for breadth and depth of CSR implementation for each of the four types.

Table 4.3. Results of the Cluster Analysis

	Substantive Implementation	**Deficient Implementation**	**Symbolic Implementation**	**Selective Implementation**
Observations	171	61	113	92
Mean score: Breadth of CSR Implementation	4.67	2.18	3.85	2.98
Mean score: Depth of CSR Implementation	4.2	2.57	2.88	4.13

As evident from Table 4.3, the mean scores of both breadth and depth of implementation of substantive implementers are high (4.67 and 4.20 respectively). Both breadth and depth of implementation score low for deficient implementers (2.18 and 2.57 respectively). As expected, the mean score of breadth of CSR implementation of symbolic implementers is significantly higher (3.85) than the mean score of depth of implementation (2.88). Vice versa, the mean of breadth of implementation is significantly lower for selective implementers (2.98) than the mean of depth of implementation (4.13). This supports our first Hypothesis.

Table 4.4 shows the OLS regression results. Model 1 and Model 2 report the main test of Hypothesis 2 and Hypotheses 3. Hypothesis 2 predicts that MNE support is positively related to the breadth of CSR implementation. We found a positive and significant (β=0.24, ρ=0.01) effect, leading us to conclude that Hypothesis 2 is supported. Hypothesis 3 posits that supplier motivation has a positive effect on the depth of CSR implementation. We found a positive and significant (β=0.50, ρ=0.00) effect for motivation on a supplier's depth of CSR implementation, and can thus support Hypothesis 3.

Table 4.4. OLS Regression Results

Independent Variables	**Model 1** Breadth of CSR Implementation	**Model 2** Depth of CSR Implementation
Motivation **(H2)**	0.45*** (0.00)	**0.50***** **(0.00)**
MNE Support **(H3)**	**0.24**** **(0.01)**	-0.12 (0.14)
Dependence	0.12** (0.02)	0.10** (0.03)
Perceived MNE Dependence	0.23*** 0.00)	0.22*** (0.00)
Nr. of External Audits	0.02** (0.03)	0.03*** (0.00)
Degree of Internationalization	-0.00* (0.07)	0.00 (0.53)
Age	0.10* (0.10)	0.09* (0.07)
Size	0.10*** (0.00)	0.03 (0.28)
Region 1 (South Asia)	0.90*** (0.00)	-0.13 (0.44)
Region 2 (Latin America)	0.34 (0.13)	-0.17 (0.38)
Region 3 (Eastern Europe)	0.39** (0.02)	0.02 (0.91)
Region 4 (East Asia)	0.316* (0.05)	-0.35** (0.01)
reference group: Western Europe		
Constant	-0.50 (0.16)	0.23 (0.46)
F	24.13	21.73
Prob. X^2	0	0
Pseudo R^2	0.39	0.36

n = 437
*ρ<0.10; **ρ<0.05; ***ρ<0.01 (p-values in parentheses)

The probabilities of various CSR implementation strategies—Hypothesis 4 and Hypothesis 5—are presented in Table 4.5. The estimated coefficient represents the probability of pursuing one implementation outcome (i.e., substantive implementation) compared to the base outcome. The base outcome in Model 3 is symbolic implementation, while the base outcome in Model 4 is selective implementation. A positive coefficient for an independent variable means that it increases the probability of the respective implementation outcome compared to the base category. A negative coefficient means that substantive implementation is more likely than the other implementation outcomes.

Table 4.5. Parameter Estimates and Results of Multi-Nominal Logit Regression

Independent Variables	**Model 4** Substantive vs Symbolic Implementation	**Model 5** Substantive vs Selective Implementation
Motivation	**1.31***** **(0.00)**	0.39 (0.17)
MNE Support	0.05 (0.89)	**0.85**** **(0.01)**
Dependence	0.42** (0.04)	0.28 (0.16)
Perceived MNE Dependence	0.62*** (0.00)	0.53** (0.01)
Nr. Of External Audits	0.09** (0.03)	0.00 (0.97)
Degree of Internationalization	-0.001 (0.92)	-0.00 (0.61)
Age	0.16 (0.44)	0.18 (0.40)
Size	0.23** (0.04)	0.25** (0.04)
Region 1 (South Asia)	-1.04 (0.23)	1.72** (0.02)
Region 2 (Latin America)	-0.26 (0.81)	0.74 (0.31)
Region 3 (Eastern Europe)	-0.91 (0.27)	0.45 (0.41)
Region 4 (East Asia)	-1.75** (0.03)	1.04* (0.07)
reference group: Western Europe		
Constant	-9.27*** (0.00)	-6.98*** (0.00)
LR χ^2	271.59	271.59
Prob. X^2	0	0
Log likelihood	-440.95	-440.95
Pseudo R^2	0.24	0.24

n=437

*ρ<0.10; **ρ<0.05; ***ρ<0.01 (p-values in parentheses)

The model presented in Table 4.5 has a high overall explanatory power with a highly significant chi-square value (ρ<0.00). Pseudo R-square measures confirm that the model has a good explanatory power (pseudo R^2 is 0.24). Hypothesis 4 predicts that the combination of MNE support and supplier motivation leads to substantive CSR implementation, as opposed to symbolic CSR implementation. Given that MNE support drives a supplier's breadth of CSR implementation (as predicted by Hypothesis 2), we do not expect to find a significant difference in MNE support between substantive and symbolic implementers (β=0.05; ρ=0.89). We do see, however, that the probability of substantive implementation is higher, as compared to symbolic implementation, if suppliers are inherently motivated (β=1.31; ρ=0.00). We can thus support Hypothesis 4.

Similarly, hypothesis 5 proposes that the combination of MNE support and supplier motivation leads to substantive CSR implementation, as opposed to selective CSR implementation. Given that supplier motivation drives a supplier's depth of CSR implementation (as predicted by Hypothesis 3), we do not expect to find a significant difference in supplier motivation between substantive and selective implementers (β=0.39; β=0.17). We do see, however, that the probability of substantive implementation is higher, as compared to selective implementation, if suppliers receive MNE support (β=0.85; ρ=0.01). We can thus support Hypothesis 5.

4.5. Discussion

4.5.1. Summary

The purpose of this study was to understand how suppliers strategically respond to CSR pressures, and what factors determine the different types of CSR implementation strategies. To that end we developed a two-by-two framework where breadth and depth of CSR implementation form the horizontal and vertical axes. We theorized and empirically showed that not all cases of CSR implementation are identical, and demonstrated that both breadth and depth of CSR implementation are important to determine a supplier's quality of CSR implementation (i.e., substantive implementation). Figure 4.4 summarizes our findings and illustrates the underlying mechanisms of both MNE support and supplier motivation for a supplier's CSR response strategy.

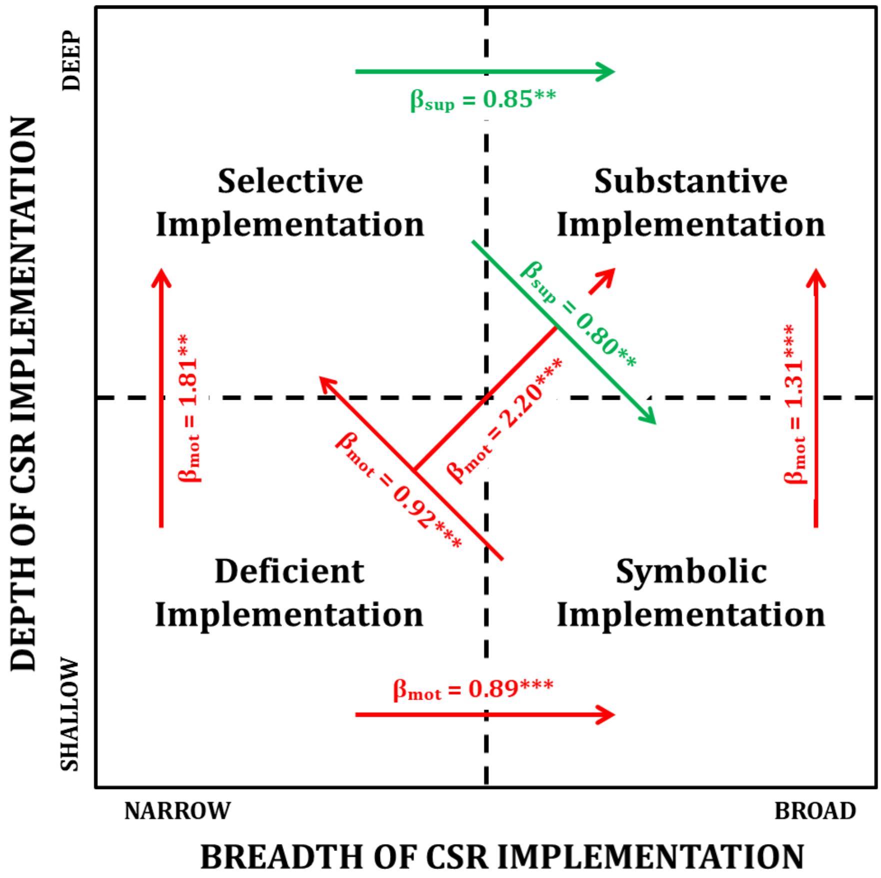

Figure 4.4. Summary of Results

From Figure 4.4 we can see that supplier motivation drives a supplier's *depth* of CSR implementation. As hypothesized, suppliers with a deep CSR implementation are more likely to respond substantively, when MNEs provide active CSR support. Although we found support for hypothesis 2, which states that MNE support drives a supplier's *breadth* of CSR implementation, this does not hold true in all instances: when suppliers are not inherently motivated to integrate CSR implementation, the underlying mechanisms for a supplier's breadth of CSR implementation are less clear. Surprisingly, we found that what distinguishes symbolic from deficient implementers is supplier motivation, and as predicted: MNE support. While our results suggest that symbolic implementers are more motivated than deficient implementers, we are paused with the nature of such motivation. Are suppliers motivated to signal good faith by implementing a wide breadth of CSR practices to ensure MNE loyalty, while, at the same time, trying to avoid the actual costs of substantive CSR implementation? We recommend future research to further unpack the underlying mechanisms of a supplier's CSR implementation responses, especially the difference between deficient and symbolic CSR implementation.

In sum, our results show that a supplier's motivation for compliance is necessary for achieving a high depth of CSR implementation, but does not suffice for substantive implementation. At the same time, we demonstrate that MNE support is needed for implementing a wide range of CSR practices, but is not sufficient either to guarantee substantive CSR implementation. What we claim here is that the combination of both supplier motivation and MNE support is needed to achieve substantive CSR implementation. This has important implications for both theory and practice.

4.5.2. Theoretical Implications

We advance studies on organizational response strategies to global standards by introducing the *breadth* of practice implementation. Previous literature has typically considered a firm's strategic responses to relatively straight forward standards, e.g., stock repurchase plans (Westphal & Zajac, 1994), or TQM standards (Christmann & Taylor, 2006; King et al., 2005), which commonly consider a low quality of practice implementation as indicative of symbolic implementation. We, however, introduce organizational responses to more complex standards, e.g., CSR standards, which are compartmentalized amongst many practices. This allows firms to *'cherry pick'* the implementation of some practices, while decoupling or rejecting others (Heese et al., 2016; Jamali et al., 2015; Pache & Santos, 2013; Wickert et al., 2015). We theorize that firms have to consider both breadth and depth of CSR implementation in order to assess the quality of implementation. Using k-means clustering, we find empirical support for our four proposed strategic CSR responses, namely: substantive, deficient, symbolic, and selective implementation. This suggests that a supplier's CSR implementation responses are not uni-dimensional, but vary along both breadth and depth dimensions. This allows us to investigate a more nuanced view of organizational responses to CSR pressures, as opposed to the uni-dimensional approach adopted in previous studies (e.g., Christmann & Taylor, 2006; Kennedy & Fiss, 2009; Westphal & Zajac, 1994, 2001).

Second, we contribute to the literature on CSR practice diffusion in global supply chains, and demonstrate that decoupling behavior is more likely, as compared to substantive implementation, when suppliers are not inherently motivated to comply with externally requested CSR standards. So far, only few empirical studies exists which have investigated antecedents of decoupling behavior in global supply chains, commonly prioritizing external factors such as MNE expectations of buyer-supplier relational characteristics (e.g., Christmann & Taylor, 2006). We could not locate a study which empirically examined how supplier-internal factors such as motivation and willingness for compliance influences decoupling behavior. This is particularly relevant in the global supply chain context, since external stakeholders cannot directly monitor or control a supplier's CSR integration in daily routines, and thus depend entirely on a supplier's honesty and commitment to CSR (Kim & Davis, 2017). Even if MNEs provide practical support in terms of resource allocation, capacity building, or CSR awareness, internal corporate routines and objectives are often not visible for MNEs, which provides leeway for suppliers to only symbolically implement CSR practices (Wijen, 2014). Especially in loosely coupled, self-organizing supply chain networks, it is important for MNEs to understand a supplier's motive for CSR implementation.

Third, we extend institutional theory, and particularly the literature on organizational response strategies and decoupling by positing that alignment between external CSR requests and supplier-internal goals and objectives may not suffice to guarantee substantive CSR implementation. While we argue, and empirically show, that supplier motivation is necessary for substantive implementation, it may not be sufficient to achieve the highest quality of CSR implementation. MNEs request global suppliers to comply with ever increasingly complex and demanding CSR standards, which is especially challenging for those suppliers located in emerging countries. Despite their motivation and willingness to comply with externally requested CSR pressures, they may not have the means to fully comply with a comprehensive CSR policy. Consequently, they may selectively implement some CSR practices—e.g., those which represent a greater sense of urgency from the buyer's perspective (Jamali et al., 2015), or those which are simply easier to implement than others (Hofstetter & Mueller, 2013)—while rejecting others. Hence, we claim that the combination of both MNE support and supplier is necessary and sufficient to explain substantive CSR implementation.

4.5.3. Managerial Implications

Our findings highlight important insights for MNE managers selecting supplier firms and design governance regimes to improve compliance in global supply chains. We find that supplier implementation strategies may vary, and could potentially lead to a loss of MNE reputation if such deviations from requested CSR practices result in high-profile scandals. MNEs should find alternative ways to govern supplier compliance, which go beyond the mere auditing of externally imposed CSR standards. At the very least, MNEs should provide active support to build capacities and raise awareness at the supplier firms, and provide (financial) resources to stimulate compliance (Jiang, 2009). Although this may increase the breadth of a supplier's CSR implementation, it may not suffice to integrate CSR practices in the supplier's daily routines. MNEs must find ways to stimulate a supplier's internal motivation, e.g., by educating them on the importance of CSR implementation for both business and society. Since suppliers are often embedded in an *'unfavorable'* environment for CSR (Marano & Kostova, 2015), especially those located in emerging markets, leaving them unwilling to change internal routines and preserve their beliefs instead, co-operations with local stakeholder groups such as NGOs or industry association may increase a supplier's depth of CSR implementation (Battilana, Leca, & Boxembaum, 2009). While MNE involvement may (initially) be perceived as a *'threat'* to suppliers (Kostova & Roth, 2002), actively pursuing MNE-NGO alliances may increase a supplier's commitment to CSR.

For suppliers seeking substantive CSR implementation, our study suggests that non-compliance can be reduced by integrating CSR into their ongoing, day-to-day, core processes, such as training, monitoring, and discipline. Hence, apart from receiving external support from MNEs, it is also important to create a favorable climate amongst employees, which strengthens the internal motivation within suppliers. Such integration will not only concretely limit opportunities for misconduct, but will also positively impact the way the compliance function and its rules are perceived in the organizations and add to the positive perception of internal legitimacy, which influences the motivation of both workers and management (MacLean & Behnam, 2010).

4.5.4. Limitations and Avenues for Future Research

Our study is not without limitations. First, while we specifically include only suppliers firms in our sample, whose main customer is located in Western Europe or North America, assuming that MNEs from these regions exert mounting CSR pressures on their supplier firms (Jayasinghe, 2016), we do not directly measure such CSR pressure. This is mainly because we focus entirely on the supplier perspective, and lack information about respective buyers. Future research may want to collect dyadic data for both buyers and suppliers in order to understand variations on both ends of the global supply chains. This is however not easy from a practical perspective.

Second, due to data unavailability, we only collected data from the middle management at supplier factories. Although middle-level managers play a major role in driving a supplier's CSR agenda (Ehrgott, Reimann, & Kaufmann, & Carter, 2011), we invite future research to collect data on both top management (e.g., to understand whether CSR is part of the organizational mission and strategy) and worker level (e.g., to assess whether employees follow direction of management and execute organizational strategy in daily routines).

Third, our study focuses only on a single industry – apparel and footwear – which may reduce the generalizability of our results for suppliers active in other industry settings. Although a single industry focus has previously been applied in the study of organizational response strategies (e.g., Jamali et al., 2015), we admit that certain industries may favor certain types of strategic responses to external pressures (Clemens & Douglas, 2005). This may be because high–impact industries such as the pharmaceutical or automobile industry may have a more active approach towards CSR (Jackson & Apostolakou, 2010).

4.6. Conclusion

MNEs coordinate global supply chains. A particular challenge concerns the implementation of CSR standards and practices. With increased globalization, MNEs generally rely on global standards or corporate firm initiatives (e.g., codes of conducts) to manage compliance in their global supply chains. Standards, especially in the CSR domain, are often vague and become more complex and demanding, which increases the compliance challenge of supplier firms. In this chapter, we theoretically argue and empirically show that it is important to consider both breadth and depth dimensions of CSR to assess the variation in a supplier's CSR implementation strategies. The resulting two-by-two framework based on breadth and depth presents four types of CSR implementers, namely: substantive, deficient, symbolic, and selective. Our empirical analysis based on original survey data of 437 firms supplying MNEs located in North America and Europe shows that substantive implementers display the highest quality of practice implementation by combining high MNE support and supplier motivation for compliance. When MNE support is lacking, suppliers can at best implement CSR practices selectively; when suppliers are not motivated and unwilling to implement CSR practices in daily routines, then suppliers can at best implement CSR practices symbolically. Hence, both factors are necessary conditions to explain substantive CSR implementation. The framework developed here advances the standard and diffusion literature, particularly in the global supply chain domain, as well as institutional theory by providing a more nuanced view on the conditions under which suppliers substantively, symbolically, or selectively implement CSR practices.

Appendix C

C1. List of Key Constructs

Variables	Key References
(a) Dependent Variable	
Breadth of CSR Implementation[a]	
1. Who is primarily responsible for social compliance in this plant?[b] a) Factory manager/owner, b) Human Research (HR) manager, c) Quality manager, d) Social Compliance manager, e) Others	Frenkel (2001), Huq et al. (2016)
2. Have internal social audits (i.e. self-evaluation) been conducted at this manufacturing plant?[c]	Aravind and Christmann (2011)
3. Can workers discuss issues of interest with the factory management, and elicit their feedback? Is yes, through which channels:[d] a) Regular monthly individual meetings, b) Free and independent worker assemblies (e.g. trade unions), c) Worker education trainings, d) Others	Boiral (2007), Frenkel (2001)
4. We clearly document the social sustainability policy and procedures, and continuously update them.[e]	Boiral (2011)
5. We integrate financial and social sustainability reporting to make more informed assessments on our plants overall performance.[f]	Boiral (2011), Weaver et al. (1999)
Depth of CSR Implementation[g]	
How would you assess the level of the social sustainability implementation at your location, i.e. has a social policy actually been put in practice?" for the following items:	Kostova and Roth (2002)
1. The social sustainability policy as a whole	
2. Leadership (e.g. managers actively support social compliance initiatives)	
3. Documentation (e.g. formal reporting of factory accidents or sickness rates)	
4. People (e.g. employee suggestions are taken serious)	
5. Process management (e.g. social sustainability policy is on official agenda of regular factory meetings)	
(b) Independent Variables	
Supplier Motivation[h]	
For each of the following descriptions, please tick the **one** that best represents your opinion.	Huq et al., (2014) Kennedy and Fiss (2009)
1. Social sustainability can lead to economic benefits (e.g. lower sickness rates or worker absence).	
2. Investments in social sustainability can give us a competitive edge over other factories in the market.	
3. We implement a social sustainability policy to manage and report our social impact on individual workers.	

C1. List of Key Constructs (*continued*)

Variables	Key References
MNE Support Please answer the following questions with regards to your manufacturing plant's most important customer (e.g. with regards to sales or reference), which is located in North America or Western Europe. Do you receive practical support from this customer?[i] If yes, in which areas (multiple answers possible): a) Productivity and process support (e.g. lean), b) Management and/or HR systems, c) Training of workers and management on product quality and/or design, d) Training of workers and management on labor practices and working conditions, e) Production planning (e.g. production schedules and staffing capacity), f) Communication between management and workers, and/or g) others	
(c) Control Variables	
Dependence[j] Please answer the following questions with regards to your manufacturing plant's most important customer (e.g. with regards to sales or reference), which is located in North America or Western Europe.	
1. This customer is crucial to our future performance.	Ganesan (1994)
2. We do not have a good alternative to this customer.	
3. It would be difficult for us to replace this customer.	
4. If our relationship was discontinued with this customer, we would have difficulty in making up the sales volume.	
Perceived MNE Dependence[k]	
1. We are a major supplier to this customer in this market.	
2. If we discontinued supplying to this customer, this customer would have difficulty making up the sales volume in this market.	Ganesan (1994)
3. It is very costly for this customer to change to new suppliers in this market.	
4. This customer will perform poorly if we do not perform well (e.g. lost sales, product recalls).	
Please answer the following questions with regards to your manufacturing plant	
Nr of External Audits How many external social audits (i.e. 3rd party or customer initiative) have been conducted last year?	Christmann and Taylor (2006)
Degree of Internationalization Currently, profits from export account for approximately________% of this plant's total profits.	Muller and Kolk (2010)
Age What is the year of incorporation of this manufacturing plant?	Aravind and Christmann (2011)

C1. List of Key Constructs (*continued*)

Variables	Key References
Size How many workers does this manufacturing plant employ?	Christmann and Taylor (2006)
Regional Dummies[l] In which country is this customer's headquarter located?	Marano and Kostova (2015)

[a] Summative Index of Key Performance Indicators (KPIs)
[b] Binary variable: one if responsibility for social sustainability is delegated to b) HR manager, c) quality manager, or d) social compliance manager,
and zero otherwise.
[ci] Binary variable: one if yes, and zero otherwise
[d] Binary variable: we assigned a one if the following feedback channels were selected: a) regulary monthly individual meetings, b) free and independent
worker assemblies, or worker education training, and a zero otherwise.
[efhjk] Measured on a 5-point Likert Scale, ranging from "strongly disagree"to "strongly agree"
[g] Measured on a 5-point Likert Scale, ranging from "needs major improvement" to "very good"
[i] Binary variable: we assigned a one if the follwoing areas were selected: b) Management or HR systems, c) Training of workers and management on product quality and/or design, d) Training of workers and management on labor practices and working conditions, and e) communication between management and workers
[l] Data gathered from the World Bank

Chapter 5: Details about Primary Data Collection

5.1. Details about Practitioner Interviews

Chapter 3 and *Chapter 4* of this PhD thesis rely on primary survey data of apparel and footwear suppliers. In order to construct the survey, we first conducted interviews with experts in the field—both Western MNEs and NGOs—to understand the sustainability challenges in apparel/footwear global supply chains. We reached out to the Business Social Compliance Initiative (BSCI), the leading business-driven initiative for organizations committed to improving labor conditions in the global supply chains. BSCI members include international retailers, importers and brand organizations operating in a diverse range of industry sectors such as apparel, food, footwear, and electronics. By attending BSCI's Annual Conference in 2014, we managed to establish close contacts with many members firms—most commonly Western apparel retailers—which later agreed to participate in a formal interview with me. Please find the interview outline below.

Personal and Organizational Background

- What is your role at […]? How long are you working for […] already?
- In how many industries is […] active? How many and which countries are you sourcing from? Who is responsible for e.g., purchasing activities within […]? How is the purchasing department organized (per country or product)? Who is in touch with the suppliers?

Importance of Sustainability

- Could you tell me what role social sustainability plays at […], e.g., do you have a specific target that you follow in terms of sustainable development in your operations? What does it mean for […] to engage in social sustainability (e.g., financially, operational)?
- How do scandals such as the factory fire in Bangladesh (i.e., Rana Plaza) affect your sustainability efforts? Does this give extra motivation for you to engage in more corporate responsibility?

Sustainability Standards

- In which sustainability standards is […] involved (e.g., BSCI)? Why? How do they differ from other sustainability standards? The implementation of which BSCI principles a) are most important for […], and b) are hardest to implement for the supplier firms?

Sustainability Challenges

- In your opinion, what are the biggest challenges for supplier firms to compliance with social sustainability standards? Are there differences between suppliers? What defines these differences (e.g., country, product)
- To what extent do you believe that social sustainability is a burden for the supplier? Why? To what extent do you think that sustainability requirements are aligned with the actual conditions in the supplier countries?

Auditing

- How are you trying to solve these problems, e.g., to what extent to do you think that audits help to detect irresponsible behavior? Does auditing have its limits?
- Do you believe that your supplier firms incorporate social sustainability requirements in their daily work routine? To what extent do you believe that your suppliers prepare for external audits take place at the last minute? In your opinion, what happens between the audits (e.g., audit cycle)?

Relationship with suppliers

- What do you request from your suppliers in terms of sustainability, e.g., is passing the BSCI audit sufficient or is there additional monitoring? How do you help your suppliers to prepare for the audits and beyond, e.g., which incentives do you give your suppliers to act sustainable (i.e., financial incentives, training, workshops)? Do you discuss audit results with the suppliers? What role does the motivation/commitment of the factory owner/manager play in the process of social sustainability implementation?

- Which relationship do you have with your suppliers e.g., are you dealing with a fixed set of suppliers or does this change every year? Are your suppliers dependent on […] (e.g., bargaining power)? Does […] know its suppliers personally? How important is trust when you deal with you deal with the suppliers?

In parallel, we also reached out to NGOs in various industries to get a better grasp on how stakeholder engagement initiatives contribute to corporate sustainability. Table 5.1 provides an overview of all interviews conducted. All interview summaries are available upon request.

Table 5.1. List of Exploratory Practitioner Interviews

Organization	Profile	Interview Partner	Interview Date	Interview Setting	Duration	Purpose
Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH	German Agency for International Cooperation provide services in the field of international development cooperation	Consultant for Cocoa Project	November 28, 2013	Personal	60	Industry insights
Fair Food International	International NGO advocating for fair and sustainable global food systems	Director Policy & Advocacy	December 13, 2013	Personal	60	NGO insights
Clean Clothes Campaign	Global garment industry alliance of labour unions and NGOs	Research & Policy Coordinator	December 13, 2013	Personal	60	NGO insights
Malu NV	Belgium manufacturing of private label and licensed apparel	PA of Roger van Craen (CEO and owner)	November 19, 2014	Skype	60	Practitioner insights from Western apparel buyers
HEMA	Dutch discount retail chain selling private label products in the foods, apparel and home textiles, hard goods and services departments	Social Compliance Manager	December 3, 2014	Personal	60	Practitioner insights from Western apparel buyers
Coolcat & America Today	Dutch fashion retail chain	Project Manager CSR	January 12, 2015	Personal	120	Practitioner insights from Western apparel buyers
Anonymous	European fashion retailer	Sourcing Office	January 30, 2015	Phone	45	Practitioner insights from Western apparel buyers

Table 5.1. List of Exploratory Practitioner Interviews *(continued)*

Organization	Profile	Interview Partner	Interview Date	Interview Setting	Duration	Purpose
Leineweber GmbH & Co. KG	German fashion retailer	Division Head of Quality Management & Corporate Responsibility	February 3, 2015	Phone	60	Practitioner insights from Western apparel buyers
Hopp KG	German textile trading company	Managing Director	February 4, 2015	Skype	60	Practitioner insights from Western apparel buyers
Åhléns	Swedish chain of department stores selling beauty, fashion, home furnishing, décor, and media	Sustainability Manager	February 5, 2015	Phone	45	Practitioner insights from Western apparel buyers
Peek & Cloppenburg KG	German apparel retailer	Head of Quality Control & Social Compliance	February 5, 2015	Phone	60	Practitioner insights from Western apparel buyers
Steilmann Holding AG	German fashion retailer	CSR Director	February 5, 2015	Phone	60	Practitioner insights from Western apparel buyers
Just Brands	Dutch fashion company	Junior Buyer	February 9, 2015	Personal	60	Practitioner insights from Western apparel buyers

Table 5.1. List of Exploratory Practitioner Interviews *(continued)*

Organization	Profile	Interview Partner	Interview Date	Interview Setting	Duration	Purpose
SINNER BV	Dutch sporting goods and lifestyle company	Head of Administration	February 9, 2015	Personal	60	Practitioner insights from Western apparel buyers
DK Company A/S	Danish fashion retailer	CSR Manager	February 18, 2015	Phone	60	Practitioner insights from Western apparel buyers
Otto Group	German e-commerce fashion and lifestyle retailer	CSR Manager	February 18, 2015	Phone	30	Practitioner insights from Western apparel buyers
INTERSPORT Int. Corp.	Swiss sporting goods retailer	Business Unit Manager	March 3, 2015	Personal	180	Practitioner insights from Western apparel buyers
Pole Group BV	Dutch textile company	Chairman	March 9, 2015	Personal	90	Practitioner insights from Western apparel buyers

5.2. Supplier-Level Survey and Data Collection

Based on the insights gained from the practitioner interviews, we designed a survey for managers at apparel/footwear factories supplying at least parts of their production to North America or Western Europe. Please find the supplier-level survey below.

The Social Sustainability Survey 2015/16
University of Groningen, the Netherlands

Dear participant,

You have been selected to participate in a study that addresses challenges of manufacturing factories when implementing social sustainability. The aim of this survey is to better understand how supplier firms manage social compliance to meet the demands of their Western customers.

The results of the study will be used exclusively for scientific purposes. All data gathered through this survey will be used strictly confidential. We guarantee the anonymity of each individual respondent and their manufacturing plant, and the individual results will not be shared with customer firms.

The questionnaire consists of five sections and will take 15 minutes to complete. Answer should be given about the entire manufacturing plant. In case there is more than one factory, please choose the most representative one when answering the questions. We appreciate it if you answer all questions.

If you have any questions on the questionnaire survey, please do not hesitate to contact me.

Prof. dr. S. Beugelsdijk
Sarah Castaldi M.Sc.

Thank you very much for your participation!

Please return this questionnaire by scanning it to sustainability@rug.nl, or by faxing it to +31 50 363 2920.

Address:
Sarah Castaldi M.Sc.
University of Groningen, Faculty of Economics & Business,
Department of Global Economics & Business,
Nettelbosje 2, 9747 AE Groningen, the Netherlands
Tel. +3150 363 3697
Email: sustainability@rug.nl

Please enter answers in the spaces enclosed with heavy lines following the instructions below:
(1) When numbers are given, circle the appropriate one, unless otherwise indicated.
(2) Fill in the blank spaces following the instructions.
(3) Try to explain in detail, if you choose the response 'Others'

I. Basic information about this plant's social sustainability performance

Social sustainability is concerned with workers' health and safety, as well as with their well-being (e.g., working time, remuneration, and freedom of association).

1. For how many years has this manufacturing plant been actively involved in social sustainability development? ________ year(s).

2. Who is <u>primarily responsible for social compliance</u> in this plant?

- ☐ Factory manager/owner
- ☐ Human Resource (HR) manager
- ☐ Quality manager
- ☐ Social Compliance manager
- ☐ If others, please specify: ________.

3. Have <u>social audits</u> been conducted at this manufacturing plant?

- ☐ Yes, external audits (e.g., by 3rd parties or customer initiatives)
- ☐ Yes, internal audits (i.e., self-evaluation)
- ☐ No

If yes, please specify <u>how many</u> social audits have been conducted <u>last year</u>?
_____External audits (e.g., by 3rd parties or customer initiatives)
_____Internal audits (i.e., self-evaluation)

4. How would you **<u>assess</u>** the level of the social sustainability implementation at your location, i.e., has a social policy <u>actually</u> been put in practice?" for the following items:

	Needs major improvement	Needs little improvement	Satisfactory	Good	Very good
The social sustainability policy **as a whole**	1	2	3	4	5
Leadership (e.g., managers actively support social compliance initiatives)	1	2	3	4	5

How would you **assess** the level of the social sustainability implementation at your location, i.e., has a social policy actually been put in practice?" for the following items:

	Needs major improvement	Needs little improvement	Satisfactory	Good	Very good
Documentation (e.g., formal reporting of factory accidents or sickness rates)	1	2	3	4	5
People (e.g., employee suggestions are taken serious)	1	2	3	4	5
Process management (e.g., social sustainability policy is on official agenda of regular factory meetings)	1	2	3	4	5

5. For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Self-assessments are conducted **regularly** and the results are used as a basis for improving our processes.	1	2	3	4	5
All **workers are trained** in the social sustainability requirements (e.g., health and safety hazards).	1	2	3	4	5
We **clearly document** the social sustainability policy and procedures, and continuously update them.	1	2	3	4	5
We **integrate financial and social sustainability reporting** to make more informed assessments on our plants overall performance.	1	2	3	4	5
We strictly **maintain our daily operations and practices** according to the documented social sustainability requirements.	1	2	3	4	5

6. For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Social sustainability is important because it **attracts large customers**.	1	2	3	4	5
We have to ensure social sustainability in order to not **risk losing our best workers** to other factories.	1	2	3	4	5
Social sustainability can lead to **economic benefits** (e.g., lower sickness rates or worker absence).	1	2	3	4	5

For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Investments in social sustainability can give us a **competitive edge** over other factories in the market.	1	2	3	4	5
We implement a social sustainability policy to **manage and report our social impact** on individual workers.	1	2	3	4	5
We implement a social sustainability policy to **meet our customer's demands.**	1	2	3	4	5

II. Basic information about this manufacturing plant's customer

Please answer the following questions with regards to your manufacturing plant's most important customer (e.g., with regards to sales or reference), which is located in North America or Western Europe.

1. In which country is this customer's headquarter located? ________.

2. How long has this manufacturing plant been working with this customer?
□ Less than 1 year
□ 1 to 3 years
□ More than 3 years

3. On average, what percentage of your sales does this customer purchase from you? ________%

4. For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
This customer is **crucial** to our future performance.	1	2	3	4	5
We do **not have a good alternative** to this customer.	1	2	3	4	5
It would be **difficult** for us **to replace** this customer.	1	2	3	4	5
If our relationship was discontinued with this customer, we would have **difficulty in making up the sales volume**.	1	2	3	4	5

5. Do you receive practical support from this customer? Yes □ / No □ .

If yes, in which areas: *(multiple answers possible)*
□ Productivity and process support (e.g., lean)
□ Management and/or Human Resource (HR) systems
□ Training of workers and management on product quality and/or design
□ Training of workers and management on labor practices and working conditions
□ Production planning (e.g., production schedules and staffing capacity)
□ Communication between management and workers
□ If others, please specify: ________.

6. For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
We are a **major supplier** to this customer in this market.	1	2	3	4	5
If we discontinued supplying to this customer, this customer would have **difficulty making up the sales volume** in this market.	1	2	3	4	5
It is very **costly** for this customer **to change** to new suppliers in this market.	1	2	3	4	5
This customer will **perform poorly** if we do not perform well (e.g., lost sales, product recalls)	1	2	3	4	5

III. Questions about this manufacturing plant's relationship with this customer

Please answer the following questions with regards to your manufacturing plant's most important customer (e.g., with regards to sales or reference), which is located in North America or Western Europe.

For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
This customer usually **keeps the promises** that it makes to our manufacturing plant.	1	2	3	4	5
This customer **works with us closely** to implement the social sustainability policy (e.g., personal visits, training programs).	1	2	3	4	5
For this customer, we are prepared to **make investments** that pay off only in the long run.	1	2	3	4	5
When we **share our problems** with this customer (e.g., material prices), we know that it will respond with understanding.	1	2	3	4	5
If we implement the social sustainability policy, we would **get rewards** from this customer (e.g., guaranteed orders).	1	2	3	4	5
This customer has often provided us **information** that has later proven to be **inaccurate**.	1	2	3	4	5
This customer allows **open two-way dialogue** on the social sustainability policy, so that set targets can be established jointly.	1	2	3	4	5
Our key customer has **invested resources** in developing our social sustainability capacities (e.g., hospitals).	1	2	3	4	5

For each of the following descriptions, please tick the **<u>one</u>** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Whenever this customer gives us **advice** on our business operations, we know that it is sharing its **best judgment**.	1	2	3	4	5
If we struggle in implementing the social sustainability policy, this customer would simply **switch to other suppliers** rather than work out problems with us.	1	2	3	4	5

IV. Basic information about this manufacturing plant

1. Is this manufacturing plant a family business? Yes ◻ / No ◻ .

2. What is the year of incorporation of this manufacturing plant? ________.

3. What does this manufacturing plant <u>primarily</u> produce? *(multiple answers possible)*
◻ Garments
◻ Textile
◻ Fashion Accessories
◻ Shoes
◻ If others, please specify: ________.

4. For how many years has your plant been involved in exporting? ________ year(s).

5. Currently, <u>profits from export</u> account for approximately________% of this plant's total profits.

6. From this plant's total export profits, what percentage is sold to <u>customers located in North America or Western Europe</u>? ________ %.

7. Please **<u>divide</u>** 100 points among the items below to indicate what this manufacturing plant is especially known for in the market (e.g.,30 for product quality, 15 for prices, 10 for delivery, 25 for flexibility, and 20 for social responsibility):

	Divided points
Product quality	_____
Prices	_____
Delivery (e.g., speed, reliability)	_____
Flexibility (e.g., change product style after order is placed)	_____
Social responsibility	_____
Total	**Sum = 100**

8. Compared to our competitors in the market, this manufacturing plant's <u>total profit</u> is

Very Low		Similar		Very High
1	2	3	4	5

9. Please <u>estimate</u> this plant's <u>annual turnover</u> in quantity and value: ________ pieces. ________ $.

10. How many <u>workers</u> does this manufacturing plant employ? ________.

11. Last year, this plant <u>welcomed</u> ________ (*number*) new workers.

12. Please **<u>specify</u>** the percentage of how the current workforce changed, compared to last year?
- ◻ Increased, by ________%
- ◻ Decrease, by ________%
- ◻ No change

13. Where do most of the workers <u>stay</u>?
- ◻ Factory dormitories
- ◻ With families
- ◻ Own apartment (without families)
- ◻ If others, please specify: ________.

14. Can workers discuss issues of interest with the factory management, and elicit their feedback?
Yes ◻ / No ◻ . *(multiple answers possible)*

If yes, through which channels:
- ◻ Regular monthly individual meetings
- ◻ Free and independent worker assemblies (e.g., trade unions)
- ◻ Worker education trainings
- ◻ If others, please specify: ________.

V. Background information about you

1. What is your nationality? ________.

2. What is your position/function in this manufacturing plant? ________.

3. How long have you worked in this position/function? ________.

4. How long have you worked with this plant? ________.

5. How many years of total work experience do you have? ________.

6. What is the highest level of education that you have completed:
- ◻ No formal education
- ◻ Elementary school
- ◻ Middle school
- ◻ High school
- ◻ University education (undergraduate program)
- ◻ University education (graduate program)

Thank you for your time and cooperation!

If you are interested in receiving a report on this survey's results, please provide your name and contact information. Please note that your contact details *will not be used in any other way* except for the purpose of this survey.

First name:	
Last name:	
Email:	
Phone	
Address	

Contact:
Sarah Castaldi M.Sc.
University of Groningen, Faculty of Economics & Business,
Department of Global Economics & Business,
Nettelbosje 2, 9747 AE Groningen, the Netherlands
Tel. +3150 363 2929
Contact Email: sustainability@rug.nl

The survey was first translated to the local language, and then back to English by two local and/or native speakers, and subsequently pilot-tested among some suppliers firms. In many countries, we used local industry or trade associations, as well as local researchers to reach out to local factories. In most instances, local institutes personally visited the factories in major apparel/footwear production countries, and filled in the survey together with the factory management. In some cases, the surveys were filled in over the phone, or distributed via email or online link to the factory management. In parallel, we visited international fashion fairs in Europe to personally reach out to suppliers, and fill in the survey together with the factory management. In total, we collected 559 responses from supplier factories located in 22 countries (i.e., Asia Pacific, South America, and Europe). For 81 of the suppliers, we also managed to collect data from a second respondent. Please find the details on the data-collection in Table 5.2.

Table 5.2. Details about the Primary Survey Data Collection

Countries	Survey in Local Language	Data Collection: Who	How	When	How many	2nd Respondent	Used in Chapter 3	Used in Chapter 4	Reasons for Discarding Data Points	Remarks
Bangladesh	**yes**	1. Leathergoods And Footwear Manufacturers & Exporters Association of Bangladesh (LFMEAB)	Factory Visits/Phone Calls	Oct - Dec 2015	61	n/a	61	61	None	
		2. Western customers	Online Survey/ Email	Oct/Nov 2015	9	n/a	7	7	Missings	Western customers offered to reach out to their suppliers.
Brazil	**yes**	1. Brazilian Textile and Apparel Industry Association (ABIT)	Online Survey	Aug 2015	21	n/a	5	5	No export/Main customer located outside North America or Western Europe	
		2. Myself and two research assistants	Personal Interviews	Jan 2016	5	n/a	5	5	None	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Bulgaria	**no**	Myself and two research assistants	Personal Interviews	Jan 2016	1	n/a	0	1	No matching data on Bulgaria's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
China	**yes**	1. Local Researcher at School of Business Administration, Zhongnan University of Economics and Law, Wuhan, China	Personal Interviews/ Visiting Factories	Oct/Nov 2015	119	20	86	98	No export/Main customer located outside North America or Western Europe. Some missing values.	
		2. Western customers	Online Survey/ Email	Oct/Nov 2015	9	n/a	4	4	No focus on apparel/textile	Western customers offered to reach out to their suppliers.

Table 5.2. Details about the Primary Survey Data Collection (*continued*)

Countries	Survey in Local Language	Data Collection: Who	How	When	How many	2nd Respondent	Used in Chapter 3	Used in Chapter 4	Reasons for Discarding Data Points	Remarks
Czech Republic	**no**	Myself and two research assistants	Personal Interviews	Jan 2016	1	n/a	0	1	No matching data on Czech Republic's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
France	**no**	Myself and four research assistants	Personal Interviews	Sep/Oct 2015	1	n/a	0	0	No export/Main customer located outside North America or Western Europe	Personal interviews conducted with suppliers firms at Port Fashion Fair (International Fashion Fair)
Greece	**no**	Myself and two research assistants	Personal Interviews	Jan 2016	1	n/a	0	2	No matching data on Greece's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
India	**no**	1. Indian Chamber of Commerce, Kolkata	Email/Online Survey	Oct - Dec 2015	12	n/a	1	3	Missings	
		2. Myself and two research assistants	Personal Interviews	Jan 2016	7	n/a	7	7	None	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Indonesia	**no**	1. Indonesian Textile Association (API)	Factory Visits/Phone Calls	Oct - Dec 2015	48	25	45	45	Missings	
		2. Indonesian Footwear Association (APRISINDO)	Email	Jul-15	4	n/a	2	2	No export/Main customer located outside North America or Western Europe	
		3. Western customers	Email	July 2015	1	n/a	1	1	None	Western customers offered to reach out to their suppliers.

Table 5.2. Details about the Primary Survey Data Collection (*continued*)

Countries	Survey in Local Language	Data Collection: Who	How	When	How many	2nd Respondent	Used in Chapter 3	Used in Chapter 4	Reasons for Discarding Data Points	Remarks
Italy	**no**	Myself and four research assistants	Personal Interviews	Sep/Oct 2015	4	n/a	0	4	No matching data on Italy's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Port Fashion Fair (International Fashion Fair)
Lithuania	**no**	Myself and two research assistants	Personal Interviews	Jan 2016	3	n/a	0	3	No matching data on Lithuania's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Malaysia	**no**	Malaysian Textile Manufacturers Association	Phone Calls/Emails	Jul - Sep 2015	41	n/a	7	10	No export/main customer located outside North America or Western Europe. Double entries and some missing values.	
Mexico	**yes**	Myself and two research assistants	Personal Interviews	Jan 2016	2	n/a	0	2	No matching data on Mexico's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Moldavia	**no**	Myself and two research assistants	Personal Interviews	Jan 2016	2	n/a	0	1	No matching data on Moldavia's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Pakistan	**yes**	Local Researcher at NED University of Engineering and Technology, Karachi	Factory Visits/Phone Calls	Jul - Sep 2015	30	n/a	17	21	No export/main customer located outside North America or Western Europe. Some missing values.	

Table 5.2. Details about the Primary Survey Data Collection (*continued*)

Countries	Survey in Local Language	Data Collection: Who	How	When	How many	2nd Respondent	Used in Chapter 3	Used in Chapter 4	Reasons for Discarding Data Points	Remarks
Peru	**yes**	Exporters Association (ADEX)	Online Survey	Oct - Dec 2015	12	n/a	0	8	No export/main customer located outside North America or Western Europe; no matching data on Peru's institutional profile (chapter 3)	
Portugal	**yes**	Myself and four research assistants	Personal Interviews	Sep/Oct 2015	51	16	35	45	No export/Main customer located outside North America or Western Europe. Some missing values.	Personal interviews conducted with suppliers firms at Port Fashion Fair (International Fashion Fair)
Romania	**yes**	1. Leather and Footwear Research Institute (ICPI)	Phone Calls/Emails	Jul - Sep 2015	5	n/a	3	3	No export	
		2. Myself and two research assistants	Personal Interviews	Jan 2016	12	n/a	11	10	Main customer located outside North America or Western Europe. Some missing values.	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Serbia	**no**	Myself and two research assistants	Personal Interviews	Jan 2016	1	n/a	0	1	No matching data on Serbia's institutional profile (chapter 3)	Personal interviews conducted with suppliers firms at Premiere Vision Paris (International Fashion Fair)
Sri Lanka	**no**	1. National Chamber of Exporters of Sri Lanka	Emails	Jul - Sep 2015	3	n/a	0	2	Missings	
		2. Western customer	Emails	Jun 2015	1	n/a	0	1	No matching data on Sri Lanka's institutional profile (chapter 3)	Western customers offered to reach out to their suppliers.

Table 5.2. Details about the Primary Survey Data Collection (*continued*)

Countries	Survey in Local Language	Data Collection					Used in Chapter 3	Used in Chapter 4	Reasons for Discarding Data Points	Remarks
		Who	How	When	How many	2nd Respondent				
Turkey	**yes**	1. Myself and two research assistants	Personal Interviews	Jan 2016	36	n/a	33	34	Missings	
		2. Western customers	Emails	Jun/Jul 2015	3	n/a	3	3	None	Western customers offered to reach out to their suppliers.
Vietnam	**yes**	Local research at Institute for European Studies, Ha Noi	Factory Visits	Jun - Aug 2015	53	20	51	51	Missings	Survey translated in local language (and back to English)
Total					**559**	**81**	**381**	**437**		

5.3. Institutional-Level Survey and Data Collection

Following recent calls for more domain-specific institutional profile measures (Busenitz, Gomez, & Spencer, 2000; Kostova, 1999; Meyer, 2012), we conducted a second survey amongst local institutes and researchers in the respective countries to understand the country-institutional effects on supplier-level outcomes. We distributed the survey via email or online link amongst local respondents that are knowledgeable and/or have practical experience with sustainability challenges in the local apparel/footwear sector. We received 89 responses from 12 countries (see Table 5.5 for more details). Since we aimed to have at least five observations on the country-level, we discarded Peru from the sample. Hence, in total, we have received 88 useable responses from local experts to predict institutional-level effects on suppliers' sustainability outcomes. Please find the institutional-level survey below.

Table 5.5. Country-Level Observations for Institutional Profiles

Countries	**Number of Observations**
Bangladesh	5
Brazil	5
China	8
India	6
Indonesia	9
Malaysia	7
Pakistan	8
Peru	0
Portugal	8
Romania	8
Turkey	11
Vietnam	13
Total	**88**

The Social Sustainability Survey 2015

University of Groningen, the Netherlands

Dear participant,

You have been selected to participate in a study that addresses challenges of manufacturing firms when implementing social sustainability. The aim of this survey is to better understand how the institutional environments of manufacturing firms shape the responses to social sustainability demands from their Western customers.

The questionnaire survey will take 5 minutes to complete. The results of the study will be used exclusively for scientific purposes. All data gathered through this survey will be used <u>strictly confidential</u>. We guarantee the anonymity of each individual respondent and their manufacturing plant, and the individual results will not be shared with customer firms.

If you have any questions on the questionnaire survey, please do not hesitate to contact me.

Prof. dr. S. Beugelsdijk
S. Castaldi M.Sc.

Thank you very much for your participation!

Please return this questionnaire
by scanning this questionnaire to sustainability@rug.nl,
or by faxing it to +31 50 363 2920.

Address:
Prof. dr. S. Beugelsdijk
University of Groningen, Faculty of Economics & Business,
Department of Global Economics & Business,
Nettelbosje 2, 9747 AE Groningen, the Netherlands
Tel. +3150 363 3697
Email: sustainability@rug.nl

Please enter answers in the spaces enclosed with heavy lines following the instructions below:
(1) When numbers are given, circle the appropriate one, unless otherwise indicated.
(2) Fill in the blank spaces following the instructions.

I. Basic information about social sustainability in [...]

Social sustainability is concerned with workers' health and safety, as well as with their well-being (e.g.,working time, remuneration, and freedom of association).

For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
It is expected in this country that manufacturing companies would have a **high** social performance.	1	2	3	4	5
There is a lot of **talk** about social sustainability going on **in the media** in this country.	1	2	3	4	5
There is a large number of **regulatory bodies** in this country which **promote and enforce** social sustainability.	1	2	3	4	5
Manufacturing companies **would** be socially sustainable **even if not required** by customers.	1	2	3	4	5
There is a very **strong message** in manufacturing companies in this country that you **can't stay in business nowadays** if you do not adopt social policy.	1	2	3	4	5
There are **laws** in this country to **protect employees'** health and safety, as well as their well-beings.	1	2	3	4	5
Being socially responsible is **at the heart of who we are** as a People.	1	2	3	4	5
In this country, **laws and rules in business** are **strictly enforced**.	1	2	3	4	5
Always treat people **fair**.	1	2	3	4	5
People in this country **know a great deal** about social sustainability.	1	2	3	4	5

For each of the following descriptions, please tick the **one** that best represents your opinion.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Strict social standards in this country are **mandated by law**.	1	2	3	4	5
In this environment, being socially responsible is a **moral obligation**.	1	2	3	4	5
Social standards (e.g.,SA8000, BSCI, WRAP) are **widely used** amongst manufacturing companies in this country.	1	2	3	4	5
People in this country **care a great deal** about social sustainability at their workplace.	1	2	3	4	5
In this country, **the government promotes** the establishment of **non-government organizations (NGOs)** and **independent trade unions**.	1	2	3	4	5
Most of the **successful** manufacturing companies in this part of the world are implementing **social compliance programs**.	1	2	3	4	5

II. Background information about you

1. What is your nationality? ________.

2. What is your current work position/function? ________.

3. How long have you worked in this position/function? ________.

4. Do you have any work experience in the textile and garment industry? Yes □ / No □ .

If yes, how many years of work experience do you have in the garment and textile industry? ________.

5. What is the highest level of education that you have completed:
□ No formal education
□ Elementary school
□ Middle school
□ High school
□ University education (undergraduate program)
□ University education (graduate program)

Thank you for your time and cooperation!

Please return this questionnaire by scanning this questionnaire to sustainability@rug.nl, or by faxing it to +31 50 363 2920

Chapter 6: Summary

6.1. General Overview

In today's globalized marketspace, multinational enterprises (MNEs) are challenged to coordinate activities and diffuse (best) practices in their increasingly fragmented and geographically dispersed business networks. This holds particularly true for global business networks which span both advanced and emerging countries. In emerging markets, MNEs often find themselves navigating formal institutional voids which impede resource availability and capability building of their business partners. In addition, MNEs are exposed to different—often conflicting logics—(informal institutions) of their business partners, which aggravate the coordination challenge in such inter-organizational arrangements. Thus, in order to determine the optimal choice of governance structure in global business networks, it is important for MNEs to factor in local institutional conditions of affiliated network members.

In this PhD thesis, we aim to understand how local institutions influence the efficacy of network governance in global business networks. While previous studies have investigated how governance choice influences the effectiveness and performance of business networks (e.g., Chang, Chung, & Mahmood, 2006; Jiang, 2009), the institutional embeddedness of modern business networks have largely been ignored (Owen-Smith & Powell, 2008). We contribute to these studies by showing that both formal and informal institutions in network members' home countries influence the effectiveness of network governance. That is, only under specific local institutional conditions can advantages of network governance be extracted for member firms, or (best) practices successfully diffused between partners. Advantages of network governance can be multi-faceted, ranging from resource and capacity support to solidarity and trust between network partners, and are commonly performance-enhancing for member firms.

While network governance plays an essential role for successful practice diffusion between partner firms, we demonstrate that it does not suffice to assure full (i.e., substantive) practice implementation. Without considering firm-internal variables such as motivation and willingness to comply with externally requested practices, member firms may respond strategically by decoupling formal structure from actual routines to buffer internal from external uncertainties (i.e., symbolic implementation). This holds especially true for highly opaque practices like CSR standards, which are difficult to externally observe and monitor (Wijen, 2014). Thus, while external factors such as institutional pressures and network governance are necessary, they are not sufficient to ensure substantive practice implementation. We develop a typology of practice implementation strategies, which goes beyond the ones identified in previous literature on network organizations (e.g., Christmann & Taylor, 2006; Jamali, Lund-Thomsen, & Khara, 2015), and empirically show that substantive practice implementation requires both network governance and internal motivation of member firms.

This PhD thesis uses both primary and secondary data from a variety of sources, and includes three empirical studies using different research settings. In the first study (*Chapter 2*) we focus on diversified business group (BG) networks, which are known to provide market (e.g., Estrin, Pouliakova, & Shapiro, 2009; Khanna & Palepu, 1997) and non-market advantages (Filatotchev, Strange, Piesse, & Lien, 2007; Khanna & Rivkin, 2001) for member in the home market. It remains unclear, however, whether such BG advantages translate across borders to affiliated foreign subsidiaries. We collected secondary data from multiple sources on subsidiary-, MNE-, and BG-level. We focus on Indian multinationals, because of India's recent spur in outward foreign direct investments (FDI) and its prominence for BGs. The focus of the second (*Chapter 3*) and third study (*Chapter 4*) lies on CSR practice diffusion and implementation in apparel/footwear supply chains. Due to recent scandals and CSR misconduct in local factories, apparel/footwear supply chains provide an ideal research setting to study CSR implementation. CSR practices are semi-institutionalized (Tolbert & Zucker, 1996), and although having gained some sort of normative acceptance in some countries, overall we can still observe sufficient heterogeneity among CSR implementation rates of apparel/footwear firms. To conduct both studies, we collected primary survey data at apparel/footwear factories located in both developed and emerging countries, and supply at least parts of their production to Western Europe or North America. This is because the origins of CSR practices are associated with mounting pressures from Western Europe or North America (Jayasinghe, 2016).

6.2. Empirical Studies

Three studies empirically investigate how external factors, i.e., local institutions and governance relationships, and internal aspects, i.e., firm-internal motivation, affect firm-level outcomes such as performance and strategic behavior. In the first study (*Chapter 2*) we aim to understand whether BG advantages—both market and non-market—can be translated across national borders. BG networks serve as an organizational response to weak formal institutions (Khanna & Palepu, 2000), and thus feature in many emerging countries. Previous studies have shown that member firms benefit from both market and non-market advantages of BGs, which generally enhance member firms' financial performance at home (e.g., Luo & Chung, 2005; Manikandan & Ramachandran, 2015). What is unclear, however, is whether and how such advantages can be translated abroad to the foreign subsidiary and affect its performance. This is interesting since emerging market BGs contribute to a significant amount of outward FDI (Yiu, 2010). To test our hypotheses, we focused only on Indian MNEs—some of which are affiliated to BGs, and others not—and collected data on subsidiary-, firm-, and BG-level. We empirically show that affiliation to BG networks is only beneficial for foreign subsidiaries, if these are located in countries with weak formal institutions or active in the manufacturing sectors vs. the service sector. Our results highlight the boundary conditions of BG membership for member firms' multinational activity.

The second study of this PhD thesis (*Chapter 3*) investigates CSR practice diffusion in vertical supply chains. More specifically, we aim to understand whether and how relational governance, or buyer-supplier collaboration, influences a global supplier's social compliance performance. Close buyer-supplier collaboration generally enhances supplier compliance with CSR standards (e.g., Gimenez & Tachizawa, 2012; Jiang, 2009); however, it is unclear, whether it is equally beneficial for all suppliers in the supply chain. Suppliers are exposed to different—formal and informal—institutional pressures and CSR logics in their home countries, which may aggravate the coordination challenges for buyers. Given that collaboration is time-consuming and costly for buyers, especially when provided to a large number of global suppliers, it is important to filter out those suppliers that can benefit most from buyers' collaborative support in the compliance process. To test the hypothesized relationships, we collected primary survey data from global apparel/footwear suppliers in multiple countries. We empirically demonstrate that buyer-supplier collaboration can enhance a supplier's social compliance performance in countries where state capacity for CSR is lacking (formal institutions), but it cannot instill CSR norms in supplier firms that are embedded in an informally unfavorable institutional environment for CSR. Our results show that relational governance is context-specific, and does not suffice as a one-size-fits-it-all strategy for all suppliers.

In the third study (*Chapter 4*) we explore how external factors, i.e., buyer support, and internal factors, i.e., supplier motivation, determine a supplier's strategic response to CSR pressures. When confronted with externally requested CSR standards, suppliers may decouple (i.e., symbolically implement) formal CSR policies from actual CSR practices in daily routines to signal conformity with stakeholder requests, and, at the same time, buffer internal organizational routines (Jamali, 2010; Meyer & Rowan, 1977). Such strategic CSR implementation puts the buying firm at risk, because it is commonly held accountable for any CSR misconduct happening in its supply chain (Humphrey & Schmitz, 2001). Since full (i.e., substantive) CSR implementation of global suppliers is difficult to externally monitor or observe, it is important to consider supplier-internal variables such as the supplier's willingness and motivation for compliance, to assess the quality of CSR implementation. Moreover, even if suppliers are inherently motivated to fully implement CSR standards, it does not necessarily mean that they are also capable of doing so (e.g., Jiang, 2009; Simpson, Power, & Klassen). We develop a new typology of CSR implementation strategies, arguing that both buyer support and supplier motivation are necessary to ensure a supplier's substantive CSR implementation. We find general support for our hypotheses in a sample of 437 global apparel/footwear suppliers. These findings suggest that both external and firm-internal factors are necessary to assess a firm's CSR implementation strategy.

6.3. Conclusion

This PhD thesis provides new insights on governance choices and relationships in global business networks. Our findings demonstrate that local institutions have to be factored in the governance choice for two reasons: one, network governance can substitute formally weak institutions by providing member firms with means to decrease transaction costs (e.g., resource allocation, capacity building). Second, network governance can stimulate the diffusion of organizational practices when member firms are exposed to favorable institutional norms and values. We also show that practice implementation strategies of network partners may vary, depending on the governance relationship and the internal motivation for practice implementation. Thus, while governance is important to provide partners with the ability and capacity to implement the requested practices, it does not suffice for the integration of practices in daily routines: without considering member firm-internal factors, i.e., the willingness and motivation to implement the practice, implementation may merely be symbolic. Hence, both governance and supplier motivation are necessary to ensure substantive implementation in global business networks. Although these results have implications for both academics and practitioners, we hope that the insights yielded in this PhD dissertation provide interesting avenues for future research on global business networks, and especially on how institutions, governance and active agency in such inter-organizational arrangement shape organizational strategic responses and firm performance.

Chapter 7: Samenvatting

7.1. Algemeen Overzicht

Op de huidige wereldwijde markt worden multinationale ondernemingen (MNO's) gestimuleerd activiteiten op elkaar af te stemmen en 'best practices' te verspreiden in hun steeds meer versnipperde en geografisch verspreide bedrijfsnetwerken. Dat geldt zeker voor mondiale bedrijfsnetwerken die zowel ontwikkelde als opkomende landen omvatten. In opkomende markten hebben MNO's vaak te maken met tekortschietende officiële instituties, wat de beschikbaarheid van middelen en capaciteitsuitbreiding van hun zakenpartners in de weg staat. MNO's hebben bovendien te maken met zakenpartners met uiteenlopende – vaaktegenstrijdige –denkwijzen (onofficiële instituties), wat het afstemmen van activiteiten binnen dit soort constructies tussen organisaties bemoeilijkt. Om de beste bestuursstructuur in mondiale bedrijfsnetwerken te bepalen, is het voor MNO's dus belangrijk om rekening te houden met lokale institutionele omstandigheden van aangesloten netwerkleden.

In dit proefschrift probeer ik inzicht te verkrijgen in de invloed van lokale instituties op de doeltreffendheid van netwerksturing in samenwerkingsverbanden tussen organisaties. Er is weliswaar eerder onderzoek gedaan naar de invloed van de gekozen sturing op de doeltreffendheid en prestaties van bedrijfsnetwerken (bijv. Chang, Chung, & Mahmood, 2006; Jiang, 2009), maar daarbij is vrijwel geen rekening gehouden met het internationale aspect van moderne bedrijfsnetwerken. Mijn bijdrage aan dit onderzoek bestaat erin dat ik laat zien dat de doeltreffendheid van netwerksturing beïnvloed wordt door zowel officiële als onofficiële instituties in thuislanden van netwerkleden. Slechts in bepaalde lokale institutionele omstandigheden kan netwerksturing namelijk voordelen opleveren voor de aangesloten bedrijven of kunnen 'best practices' succesvol tussen partners uitgewisseld worden. Netwerksturing kan allerlei soorten voordelen opleveren, uiteenlopend van ondersteuning bij het beheer van middelen en capaciteit tot solidariteit en vertrouwen tussen netwerkpartners, en zijn doorgaans prestatiebevorderend voor aangesloten bedrijven.

Hoewel netwerksturing essentieel is voor een succesvolle uitwisseling van werkwijzen tussen aangesloten bedrijven, toon ik aan dat zij niet genoeg is om een volledige (dat wil zeggen substantiële) implementatie van deze werkwijzen te garanderen. Als je geen rekening houdt met interne bedrijfsvariabelen zoals motivatie en de bereidheid werkwijzen te hanteren die door derden worden gevraagd, kan de strategische reactie van aangesloten bedrijven zijn dat ze de officiële structuur loskoppelen van bestaande routines om interne onzekerheden te beschermen tegen externe onzekerheden (we spreken dan van symbolische implementatie). Dat geldt vooral voor zeer ondoorzichtige praktijken als MVO-normen, die van buitenaf lastig zichtbaar en controleerbaar zijn (Wijen, 2014). Externe factoren zoals druk vanuit instituties en netwerksturing zijn dus weliswaar nodig, maar ze zijn niet voldoende om een substantiële implementatie van praktijken te waarborgen. Ik ontwikkel een typologie van strategieën voor het implementeren van praktijken die verder gaat dan die in eerdere literatuur over netwerkorganisaties (bijv. Christmann & Taylor, 2006; Jamali, Lund-Thomsen, & Khara, 2015) en ik toon op empirische wijze aan dat de substantiële implementatie van praktijken netwerksturing en motivatie binnen de aangesloten bedrijven vereist.

In dit proefschrift wordt gebruikgemaakt van zowel primaire als secundaire data uit allerlei bronnen en het omvat drie empirische onderzoeken in verschillende onderzoeksomgevingen. In het eerste onderzoek (*Hoofdstuk 2*) richt ik me op gediversifieerde netwerken van *Business Groups* (BG), waarvan bekend is dat zij leden in de thuismarkt marktvoordeel (bijv. Estrin, Pouliakova, & Shapiro, 2009; Khanna & Palepu, 1997) en niet-marktvoordeel (Filatotchev, Strange, Piesse, & Lien, 2007; Khanna & Rivkin, 2001) bieden. Het blijft echter onduidelijk of deze BG-voordelen ook grensoverschrijdend werken voor buitenlandse dochtermaatschappijen. Ik heb secundaire data verzameld uit allerlei bronnen op het niveau van dochtermaatschappijen, MNO's en BG's. Ik richt me op Indiase multinationale ondernemingen omdat India onlangs een spurt heeft gemaakt op het gebied van uitgaande directe buitenlandse investeringen (DBI) en omdat daar veel BG's zijn. In het tweede (*Hoofdstuk 2*) en derde onderzoek (*Hoofdstuk 4*) ligt de aandacht op de verspreiding van MVO-praktijken en de implementatie daarvan in aanvoerketens van kleding en schoeisel. Als gevolg van recente schandalen en MVO-misstanden in lokale fabrieken vormen aanvoerketens van kleding/schoeisel een ideale onderzoeksomgeving voor het bestuderen van de implementatie van MVO. MVO-praktijken zijn half-geïnstitutionaliseerd (Tolbert & Zucker, 1996) en hoewel ze in sommige landen min of meer normatief geaccepteerd zijn, is de mate waarin MVO in kleding-/schoenenbedrijven is geïmplementeerd globaal genomen nog steeds zeer wisselend. Om beide onderzoeken te verrichten, heb ik primaire enquêtegegevens verzameld in kleding-/schoenenfabrieken in zowel ontwikkelde als opkomende landen die ten minste een deel van hun productie afzetten in West-Europa of Noord-Amerika. Dit omdat de oorsprong van MVO-praktijken in verband wordt gebracht met toenemende druk uit West-Europa en Noord-Amerika (Jayasinghe, 2016).

7.2. Empirisch Onderzoek

Er worden drie empirische onderzoeken uitgevoerd naar hoe externe factoren, dat wil zeggen lokale instituties en bestuurlijke verhoudingen, en interne aspecten, dat wil zeggen motivatie binnen bedrijven, invloed uitoefenen op uitkomsten op bedrijfsniveau, zoals prestaties en strategisch gedrag. In het eerste onderzoek (*Hoofdstuk 2*) probeer ik inzicht te verkrijgen in de vraag of BG-voordelen – zowel marktvoordelen als niet-marktvoordelen – ook grensoverschrijdend werken. BG-netwerken zijn de reactie van organisaties op zwakke officiële instituties (Khanna & Palepu, 2000) en komen dus veel voor in opkomende landen. Uit eerder onderzoek is gebleken dat aangesloten bedrijven profiteren van zowel markt- als niet-marktvoordelen van BG's, omdat BG's de financiële prestaties van de aangesloten bedrijven in het thuisland doorgaans verbeteren (bijv., Luo & Chung, 2005; Manikandan & Ramachandran, 2015). Het is echter onduidelijk of en hoe deze voordelen naar het buitenland vertaald kunnen worden ten behoeve van de buitenlandse dochtermaatschappij en of en hoe ze haar prestaties kunnen beïnvloeden. Dit is interessant omdat BG's in opkomende markten een belangrijke bijdrage leveren aan de uitgaande BDI (Yiu, 2010). Om mijn hypotheses te testen, heb ik me alleen gericht op Indiase MNO's – waarvan sommige aangesloten zijn bij BG's en andere niet - en heb ik data verzameld op het niveau van dochtermaatschappijen, bedrijven en BG's. Ik toon op empirische wijze aan dat aansluiting bij BG-netwerken voor buitenlandse dochtermaatschappijen alleen voordelig is als ze gevestigd zijn in landen met zwakke officiële instituties of als ze werkzaam zijn in de maakindustrie, en niet in de dienstensector. Mijn resultaten benadrukken de grensvoorwaarden voor lidmaatschap van een BG voor de multinationale activiteit van aangesloten bedrijven.

Het tweede onderzoek van dit proefschrift (*Hoofdstuk 3*) gaat in op de verspreiding van MVO-praktijken in verticale aanvoerketens. Meer specifiek probeer ik te begrijpen of en hoe relatiemanagement of samenwerking tussen koper en leverancier de maatschappelijke prestaties van een mondiale leverancier beïnvloedt. Nauwere samenwerking tussen koper en leverancier verhoogt in het algemeen de naleving door de leverancier van MVO-normen (bijv. Gimenez & Tachizawa, 2012; Jiang, 2009); het is echter onduidelijk of zij voor alle leveranciers in de aanvoerketen even bevorderlijk is. Leveranciers staan in hun thuislanden bloot aan allerlei vormen van druk door officiële en inofficiële instituties en uiteenlopende opvattingen over MVO, wat het afstemmen van activiteiten voor kopers extra kan bemoeilijken. Aangezien samenwerking voor kopers tijdrovend en kostbaar is, vooral wanneer er met een groot aantal mondiale leveranciers wordt samengewerkt, is het belangrijk die leveranciers te selecteren die het meeste kunnen profiteren van de ondersteuning van de koper tijdens het nalevingsproces. Om de veronderstelde verhoudingen te testen verzamel ik onderzoeksgegevens van mondiale leveranciers van kleding/schoeisel in verschillende landen. Ik toon op empirische wijze aan dat samenwerking tussen koper en leverancier bevorderlijk kan zijn voor de maatschappelijke naleving door leveranciers in landen waar de overheid MVO slechts gebrekkig kan faciliteren (lees: waar officiële instituties ontbreken), maar dat zij niet kan zorgen voor MVO-normen in bedrijven van leveranciers die ingebed zijn in een onofficiële, voor MVO ongunstige institutionele omgeving. Mijn resultaten tonen aan dat relatiemanagement contextgebonden is en niet toereikend is als *one-size-fits-all*-strategievoor alle leveranciers.

In het derde onderzoek (*Hoofdstuk 4*) onderzoek ik hoe bepalend externe factoren, dat wil zeggen ondersteuning van kopers, en interne factoren, dat wil zeggen motivatie van leveranciers, zijn voor de strategische reactie van een leverancier op druk op het gebied van MVO. Leveranciers die te maken krijgen met externe druk inzake MVO-normen kunnen officieel MVO-beleid loskoppelen van daadwerkelijke MVO-werkwijzen tijdens de dagelijkse routine (en MVO dus symbolisch implementeren) om naar buiten toe uit te stralen dat ze de wensen van belanghebbenden naleven terwijl ze tegelijkertijd interne organisatorische procedures beschermen (Jamali, 2010; Meyer & Rowan, 1977). Een dergelijke strategische implementatie van MVO brengt de koper in gevaar omdat deze doorgaans aansprakelijk wordt gesteld voor MVO-misstanden in zijn aanvoerketen (Humphrey & Schmitz, 2001). Aangezien het lastig is een volledige (dat wil zeggen substantiële) implementatie van MVO door mondiale leveranciers extern te bewaken of na te leven, is het belangrijk rekening te houden met interne variabelen zoals de bereidheid en motivatie van leveranciers tot naleving om de kwaliteit van de implementatie van MVO te beoordelen. Zelfs al zijn leveranciers innerlijk gemotiveerd MVO-normen volledig te implementeren, dan nog betekent dat niet automatisch dat ze daar ook toe in staat zijn (bijv. Jiang, 2009; Simpson, Power, & Klassen). Ik ontwikkel een nieuwe typologie van strategieën voor de implementatie van MVO en stel dat zowel ondersteuning door de koper als motivatie van de leverancier nodig zijn om te garanderen dat een leverancier MVO substantieel implementeert. Ik vind algemene steun voor mijn aannames in een steekproef van 437 kleding-/schoenenleveranciers. Mijn bevindingen laten zien dat er zowel externe als interne bedrijfsfactoren nodig zijn om de strategie van een bedrijf inzake de implementatie van MVO te kunnen beoordelen.

7.3. Conclusie

Het theoretische en empirische onderzoek in dit proefschrift biedt nieuwe inzichten in de keuze van bestuur en verhoudingen in mondiale bedrijfsnetwerken. Uit mijn bevindingen blijkt dat er bij de keuze van bestuur om twee redenen rekening gehouden moet worden met lokale instituties: netwerksturing kan zwakke officiële instituties vervangen door aangesloten bedrijven de middelen te bieden om transactiekosten te verlagen (bijv. door middelen toe te wijzen, capaciteit uit te breiden). Ten tweede kan netwerksturing de verspreiding van organisatorische werkwijzen bevorderen als aangesloten bedrijven te maken hebben met gunstige institutionele normen en waarden. Daarnaast toon ik aan dat strategieën van netwerkpartners voor het implementeren van werkwijzen kunnen verschillen, al naar gelang de bestuurlijke verhoudingen en de interne motivatie om praktijken te implementeren. Hoewel sturing belangrijk is om partners de bekwaamheid en capaciteit te bieden de gevraagde werkwijzen te implementeren, is zij niet genoeg om praktijken te integreren in de dagelijkse routine: als je geen rekening houdt met interne factoren van aangesloten leden, zoals de bereidheid en motivatie om praktijken te implementeren, dan is implementatie wellicht louter symbolisch. Er is dus sturing en motivatie van leveranciers nodig om substantiële implementatie in mondiale zakelijke netwerken te mogelijk te maken. Hoewel deze resultaten implicaties hebben voor zowel academici als beroepsbeoefenaren, hoop ik dat de in dit proefschrift verkregen inzichten interessante aanknopingspunten bieden voor nader onderzoek naar mondiale bedrijfsnetwerken, en vooral naar hoe instituties en bestuur in dergelijke constructies tussen organisaties de organisatorische strategische reacties en bedrijfsprestaties vorm kunnen geven.

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